By Chris Edwards

President Barack Obama has introduced his federal budget plan for the coming years, and it includes large increases in spending, taxes, and debt. Building on spending precedents set by President George W. Bush, Obama’s budget would boost nondefense outlays to a record share of the economy.

Obama’s Spending Plan

Obama’s budget promises to save money by reforming procurement and cutting various types of waste. But the budget’s main thrust is to boost spending on health care, energy subsidies, college aid, refundable tax credits, and other items.

Nondefense spending is total federal outlays less defense and net interest. Even after the current spike in spending caused by the stimulus bill and financial bailouts, Obama is planning to spend at permanently higher levels.

By 2019, nondefense spending would hit 17 percent of GDP, a 30 percent higher share of the economy than under President Bill Clinton in the late 1990s. And that large expansion understates Obama’s plans because it includes only a fraction of the spending for his forthcoming health care proposal.

Bush Precedents

The boldness of Obama’s spending plans is partly building on Bush’s precedents. Obama’s budget promises to save money by reforming procurement and cutting various types of waste. But the budget’s main thrust is to boost spending on health care, energy subsidies, college aid, refundable tax credits, and other items.

Vermont Best for Insurance Buyers

For the second straight year, a study of property-casualty insurance markets puts Vermont at the top of the list of states most receptive to insurance competition.

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That’s the conclusion of two researchers who looked at bailouts’ effects on private incentives.
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Del. Governor Plans State Salary Cuts

By Phil Britt

Delaware Gov. Jack Markell (D) is proposing a temporary 8 percent across-the-board cut in salaries for all state employees, which he projects will save the state about $91 million in fiscal year 2010.

In addition, Markell’s proposal trades three fixed holidays per year for state employees for three floating ones, which will enable the state to cut back on overtime costs and save an additional $1 million, according to Markell. The governor also proposes a temporary freeze on career ladder adjustments, for an additional projected $1.2 million in savings.

The governor also proposed cutting health care costs for the workers. “While full-time state employees will continue to receive medical benefits, we will support legislation to eliminate the ‘double state share’ for married state employees,” Markell said in a statement.

“In addition, we propose instituting an in-depth evaluation of the state’s health plan for employees and retirees with the expectation that employees and retirees will pay for a larger portion of their health care than they do today—a portion that will be closer to but still significantly less than most Delawareans pay for their health care,” Markell continued.

Taking Home 10 Percent Less

The combination of salary and benefit reductions means the average state employee will be taking home 10 percent less next year, according to the governor’s office. “To reach the same amount of savings by layoffs instead of salary reductions, we would have had to lay off 1,500 people,” Markell said.

State Sen. F. Gary Simpson (R-Milford), the majority leader, criticized Markell for focusing on only a single element of the state budget instead of considering a variety of areas where savings could be achieved.

“We have to focus more on those areas where we can make the government more efficient,” Simpson said. “It appears that there are other things that could be done, though it would take longer to see the savings.”

For instance, Simpson said the state could save money by consolidating school districts, which would reduce many administrative and other overhead costs, though much of those savings would be down the road, not in the next budget.

Some Jobs ‘Unnecessary’

Some government jobs may also be unnecessary, Simpson said. “We were able to see this coming,” he said. “We called for cuts in government beginning in May of 2007. We were able to see that what we were spending was more than future revenues would allow. The administration at the time took no steps to make any changes. Now we’re paying the price.

“We would have been in a better position if we had not continued the growth of the government. ... The size of the budget has grown by $1 billion in the last eight years. ... That’s a third of our state budget.”

F. GARY SIMPSON
STATE SENATOR, MILFORD, DELAWARE

“We would have been in a better position if we had not continued the growth of the government. ... The size of the budget has grown by $1 billion in the last eight years. For large states like Pennsylvania, $1 billion isn’t much, but that’s a third of our state budget.”

One efficient way to cut the state’s budget, according to Simpson, would be to offer noncash incentives to induce older government workers to accept early retirement.

Another Tobacco Tax Hike?

The federal government’s cigarette tax was recently increased, and Delaware smokers could see yet another increase as Markell seeks to hike the state tax. Simpson said the cigarette tax is another example of the governor attempting to single out a particular group to attempt to balance the budget.

Also on the revenue side of the budget proposal, Markell is seeking to expand casino gambling, which Simpson says not only may bring in no more revenue but also could prove detrimental to the state’s current casino operators.

The state already is saturated with gambling establishments, most of which are just breaking even, Simpson says. Adding more gambling sites would likely take people away from the ones that are profitable—causing them to lose money—while not adding any more statewide gambling tax revenues, he said.

Phil Britt (spenterprises@wowway.com) writes from South Holland, Illinois.
Massachusetts Gov. Patrick Proposes Tax Hikes Galore

By Thomas Cheplick

Massachusetts Gov. Deval L. Patrick (D) has proposed an array of tax hikes in a bid to plug an estimated $1 billion hole in the state’s $28 billion 2010 budget.

Patrick wants to eliminate the current sales tax exemption for all candy, soda, sweetened beverages, liquor, and even fruit drinks. He also is attempting to raise the state’s gasoline tax by 27 cents a gallon, impose higher taxes on restaurant meals, and expand the state’s ability to collect taxes on Internet sales.

If the proposal passes, Massachusetts will have the highest gasoline tax in the nation at 50.5 cents a gallon. The tax will rise annually with the Consumer Price Index.

Campaigning for Support

The Massachusetts Restaurant Association was quick to respond to the governor’s proposals. Peter Christie, CEO of the association, said in a press release, “This proposal singles out restaurants at a time when they can least afford it.”

Tom First, co-creator of Nantucket Nectars, a popular brand of bottled juices, said of Patrick’s proposal to remove the sales tax exemption from candy and soda, “That’s ridiculous. So if I buy a juice I have to pay taxes, but if I buy a cookie I don’t?”

Patrick is campaigning across Massachusetts to rally residents to support his budget, touting the package as a reform measure. He notes his bill uses the state’s “rainy day” reserves to plug the budget hole in addition to using tax increases.

“We are one commonwealth,” the governor said in an appearance in Western Massachusetts. “We need to stop acting like we can have something for nothing.”

‘Not Thinking About Businesses’

Holly Robichaud, a longtime Massachusetts-based political and public relations consultant with ties to the Republican Party, said, “I don’t believe that Governor Patrick is thinking about local businesses.”

Robichaud believes the chief problem behind the governor’s proposal is that he lacks empathy with small businessmen. “The problem with many politicians is that they don’t have small business or self-employment experience,” Robichaud said. “They have never seen how much a burden taxes can be. For example, every self-employed person in Massachusetts is now required to get prescription drug coverage or get fined. That is an additional cost of $600 per year.”

attempting to trick Bay State residents with his proposed increase in the state gasoline tax.

“The gas tax is a bait and switch situation,” Robichaud said. “First the governor proposed $7 tolls [on roads]. People objected and warmed to a gas tax that would spread the burden, but they never thought it would be a 100 percent increase. But 27 cents is not what Governor Patrick wants. He really only desires 15 cents per gallon.

“Asking for more than he needs is just a political game,” Robichaud continued. “Moreover, many toll critics said they support a gas tax hike with the removal of the toll booths. While they are fighting the huge gas tax increase, he will be able to keep the toll booths, which allows the politicians to increase tolls in the future.”

Revenue Could Fall

Janine Harrod, director of government affairs at the Massachusetts Restaurant Association, believes Patrick has yet to realize his proposed tax increases may actually drive down total revenue.

“I don’t think that Gov. Patrick realizes that adding an additional tax on restaurant meals will actually have the opposite effect [from what] he is looking for,” Harrod said. “Consumers’ discretionary spending is based on a finite amount of money. If you raise the tax by 2 percent, for example, you cannot assume that people’s spending will grow by that amount.”

Harrod believes the proposed new restaurant taxes in the governor’s budget could lead to Massachusetts businesses closing down and laying off workers.

“The association also believes that these new taxes [will] create a disincentive to dining out during a climate already overcome by falling consumer confidence,” Harrod said. “This will hurt many restaurants that are on the cusp of going out of business.”

No Spending Reform

Stergios says Patrick seems to prefer to focus on generating new revenue streams for the state instead of instituting government reforms that would save Massachusetts money.

“The governor has talked an awful lot about big reforms of public pensions and benefits, but he tends to put more energy behind new revenue proposals because it is politically easier,” Stergios said. “Unfortunately, that’s not leadership.”

Patrick’s proposed tax increases appear to be rattling the foreign business community in Massachusetts. The Organization for International Investment has asked its members to cut staff or spend progressively less in Massachusetts because of the governor’s new tax plans.

The OII represents Novartis, National Grid, Ahold USA, Thomson, Alcatel-Lucent, UBS, Suez Energy, Coviden, Pearson, Nestle, Michelin, GlaxoSmithKline, Virgin Airlines, Lufthansa, and Sony in Massachusetts.

The Massachusetts budget usually is signed into law at the end of May.

Thomas Cheplick (thomascheplick@yahoo.com) writes from Cambridge, Massachusetts.
N.J. Budget Relies on Questionable Revenue, Cuts

By Gregg M. Edwards

Only nine days after proposing to eliminate the property tax deduction allowed under New Jersey’s personal income tax, New Jersey Gov. Jon Corzine (D) partially backed down from the proposal.

Typical of the reaction to the proposal was that of state Sen. Kevin O’Toole (R-Cedar Grove), a member of the state’s Senate Budget Committee, who said, “Governor Corzine has abandoned the middle-class taxpayer.”

Corzine’s budget also was criticized for relying too heavily on one-shot revenues and spending cuts that were not true cuts but instead spending deferred to future years.

Spending Delayed, Not Denied

“Over $2 billion of the proposed budget relies on federal money that won’t be available for the next budget,” said Paul Tyahla, vice president for the Commerce and Industry Association of New Jersey. “The governor claims to be cutting spending by reducing the contribution to the state public employees’ pension systems. But this contribution has to be made eventually. It’s not a true spending cut. In total, this budget relies on at least $4 billion of revenues and spending cuts that won’t be available next year.”

Corzine unveiled his FY2010 budget on March 10. He proposed to spend $31.9 billion, approximately $1.3 billion less than the current year’s budget. He also acknowledged the state expected to collect only $28.6 billion in taxes and fees.

To make up the $4.6 billion difference between current spending and expected revenues, Corzine proposed to use $2.1 billion in federal “stimulus” aid to support current expenses, enact approximately $1 billion in tax hikes, and cut current spending by about $2.5 billion.

Less than a month later, Budget and Finance Officer David Rosen of the state’s nonpartisan Office of Legislative Services told the Senate Budget Committee, “New Jersey finds itself in the most significant revenue downturn in its modern history.”

$606 Million Shortfall Projected

Rosen projected New Jersey would bring in $606 million less in revenue than the Corzine administration claimed.

The shortfall is expected even though Corzine proposes to increase the tax rate on incomes over $500,000 from the current 8.97 percent to 10.25 percent, giving New Jersey the second-highest income tax rate in the nation. The governor also proposed to eliminate the ability of all income tax filers, except senior and disabled citizens, to deduct property taxes from their income tax liability. Corzine also proposed to increase taxes on cigarettes and alcohol, excluding beer.

Early criticism of Corzine’s proposed budget focused on what the Star-Ledger newspaper called the “double whammy”—taking away the property tax deduction and reducing or eliminating the property tax rebate program.

It quickly became apparent there was little support for that idea. Corzine modified his plan so households earning up to $150,000 could continue to deduct property taxes.

Citizens’ Exodus

Using Internal Revenue Service data, Americans for Tax Reform noted that between 1997 and 2007, New Jersey experienced a net domestic population loss of 335,339 people. According to ATR, one-third of that loss occurred after 2005, when New Jersey last increased its income tax. In total, ATR concluded, the population loss decreased New Jersey’s income tax base by nearly $13 billion.

ATR President Grover Norquist said, “Corzine’s budget plan will turn the exodus of tax refugees into a flood. This plan will not only hurt New Jersey taxpayers, destroy jobs, and cause businesses to relocate across state lines, it will turn New Jersey into a depopulated ghost town.”

Cigarette Tax Revenue Decline

Corzine’s intention to increase the cigarette excise tax from $2.575 to $2.70 per pack, the nation’s second-highest state tax, also drew criticism.

After the most recent cigarette tax increase, enacted in July 2006, cigarette tax revenues fell for two consecutive years, and cigarette sales for the current fiscal year suggest revenues will fall again.

“Given the facts, Corzine’s assertion that another rate hike will increase revenues simply isn’t credible,” observed Jerry Cantrell, president of the New Jersey Taxpayers Association.

The governor and legislature are bound by the state constitution to agree on a budget by the start of the next fiscal year on July 1.

Gregg M. Edwards (gmedwards1@verizon.net) is president of the Center for Policy Research of New Jersey.

In March, New Jersey Governor Jon Corzine gives the budget address in Trenton, N.J.

“Corzine’s budget plan will turn the exodus of tax refugees into a flood. This plan ... will turn New Jersey into a depopulated ghost town.”

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3. Avoid “sin” taxes
4. Create a transparent and accountable budget
5. Privatize public services
6. Avoid corporate welfare
7. Cap taxes and expenditures
8. Fund students, not schools
9. Reform Medicaid programs
10. Protect state employees from politics

From Ten Principles of State Fiscal Policy, The Heartland Institute, 2006.
http://www.heartland.org/Article.cfm?artid=19354

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In March, New Jersey Governor Jon Corzine gives the budget address in Trenton, N.J.
New Federal Tax on Cigarettes Could Hurt State Tax Revenues

By John Nothdurft

State budget officials nationwide are bracing for the fiscal impact of a 156 percent increase in the federal tax on cigarettes.

On April 1 the federal excise tax on cigarettes soared from 39 cents to $1.01 a pack. State budget officials fear the tax hike could cut cigarette sales and consumption, reducing state tobacco tax revenues. In 2007 states relied on $15.26 billion in tobacco tax revenues in order to balance their budgets.

According to the National Taxpayers Union, in 2008 Texas and New York each took in $1.5 billion in tobacco tax revenue. Three other states took in more than $1 billion each.

Despite fearing the possible impact of the federal tax hike, more than 20 states are considering new tobacco tax hikes to cover projected budget deficits this year. Kentucky and Arkansas have already hiked their SETs [state excise taxes]; proposals are gaining traction in Illinois, Wisconsin, Florida, New Jersey, and South Carolina,” said Josh Culling, state government affairs manager for the National Taxpayers Union. “SET hikes in Virginia, Mississippi, and Utah, among others, failed this session.”

Regressive Tax

Culling added, “These tax increases are significantly flawed for a number of reasons. They’re a regressive tax hike on the poor; they tend not to meet their revenue projections, leading to deficits and other tax hikes in the future; and they drive business over state lines.”

Tobacco use and sales already have been declining, and many experts agree the federal cigarette tax increase will continue the declines. This will lead to less tobacco tax revenue than projected by both federal and state governments.

Patrick Fleenor, chief economist for the Tax Foundation, estimates the higher federal cigarette tax will reduce state and local revenues by $2.3 billion in fiscal 2010, the first year the tax is fully in effect.

“The bulk of these losses will result from $1.6 billion in lost excise tax revenue,” Fleenor said.

Advocates for hiking tobacco taxes often use public health arguments to push the tax increases through. Culling says those arguments often are misleading because, “while politicians will tell you they want to hike cigarette taxes for public health reasons, these hikes are entirely revenue-raising decisions. The vast majority of states are facing significant budget deficits, and hiking taxes on a small, politically unpopular minority is an easy way to raise some extra cash. Heaven forbid governments tighten their belts.”

Revenue Shortfalls

Between 2003 and 2007 only 16 of 57 state tobacco tax hikes met or exceeded their revenue estimates. Opponents of cigarette tax increases say the revenue will continue to dry up because the tax base is narrow, tobacco use is declining, and high tax rates are already driving an increase in cigarette smuggling and untaxed purchases.

Culling says nonsmokers need to be wary of such targeted tax increases because they will eventually fall back onto all taxpayers. “The number one reason nonsmokers should care about cigarette taxes: They are unstable revenue sources that rarely meet their revenue projections. This leads to deficits and more tax hikes [on income, retail sales, and other goods] in the future,” says Culling.

Fleenor agrees, saying politicians are going after smokers because “they make up only about 20 percent of the population, making them an easy target.”

“[W]hile politicians will tell you they want to hike cigarette taxes for public health reasons, these hikes are entirely revenue-raising decisions.”

JOSH CULLING
STATE GOVERNMENT AFFAIRS MANAGER
NATIONAL TAXPAYERS UNION

Growing Black Market

Fleenor also warns of a growing black market created by excessive cigarette taxes. He compares the wide impact of excessive tobacco taxes to that of Prohibition: “Even during Prohibition non-drinkers were still affected, and the same goes for smokers now. This is not just an issue that smokers need to worry about, because this will affect all taxpayers in the end.

“Until 1998 and the implementation of the first federal tobacco levy, cigarette smuggling was primarily an interstate issue. Since that time, with each additional federal tobacco tax hike, international smuggling has become a more prevalent concern,” Fleenor said.

As state budget negotiations across the country take place, tobacco tax revenues and possible increases in tobacco taxes are already front and center in nearly half the states.

John Nothdurft (jnothdurft@heartland.org) is a legislative specialist in budget and tax policy at The Heartland Institute.
Tax and Spending Limit Amendments Pick Up Steam

By Joshua Culling

A mendments limiting increases in taxes or spending by state and local governments will likely be appearing on ballots in at least two states over the next two years.

Activists in Maine and Florida are confident about the prospect of reform in 2009 and 2010, respectively, because many voters believe in the need to control spending in the wake of a serious economic downturn.

Proponents of the new amendments point to the successes of the original tax and spending limitation amendment, called the Taxpayers Bill of Rights (TABOR), as evidence recommending similar measures in their states.

Colorado voters enacted the first TABOR in 1992. TABOR limits annual increases in government revenues to inflation plus the rate of population growth, subjects any tax hikes to a citizens’ vote, and returns surplus revenues to taxpayers.

The refund threshold in Colorado was first met in 1997, and over the next three years taxpayers received $3.25 billion in refunds, according to Prof. Barry Poulson of the University of Colorado.

Voters Defend TABOR

Colorado citizens defended TABOR in the November 2008 election by rejecting Amendment 59, which would have repealed surplus rebates forever and weakened the spending limit to the point of irrelevance, essentially scrapping TABOR.

The education lobby spent enormous sums of money in support of Amendment 59. Poulson says it “was defeated not because we had a huge, well-funded effort, but because citizens understand and fundamentally embrace TABOR.”

The National Taxpayers Union, a nonpartisan citizen group that promotes lower taxes and limited government, spearheaded an effort to inform Coloradans about the harmful effects of Amendment 59.

The momentum from the pro-taxpayer victory against Amendment 59 has spread to Maine and Florida.

Maine Schools Carved Out

Maine Leads, a nonprofit advocacy group, is the chief organizer of the 2009 effort. A similar drive in 2006 failed, but activists made some changes to the amendment proposal after going on a statewide tour to seek voters’ opinions.

Perhaps the most significant event for the Maine amendment proposal took place when Gov. John Baldacci (D) instituted his own version of TABOR on every school board in the state, according to Roy Lenardson, executive director of Maine Leads.

“Our first effort in 2006 got 46 percent of the vote,” said Lenardson. “As a direct result of its initial popularity, the governor now requires a town vote on every school district budget. The result has been school districts coming to the table with increasingly modest budgets.”

For that reason, Maine Leads has been able to remove school districts from its version of TABOR, likely preempting teacher unions’ anti-TABOR activities like those seen in Colorado.

Voters Back Restraint

The current economic downturn has made budget restraint increasingly popular with voters.

“Spending is already going to grow beyond the T A B O R limit,” said Lenardson. “When this amendment passes, what we’ll have is built-in brakes on spending growth when the economy rebounds.”

The measure is similar to Colorado’s TABOR. It restricts spending to the rate of inflation plus population growth, and subjects any increases beyond that to a popular vote. It does the same for tax increases, and it returns the majority of any surplus to the taxpayers.

Petition signatures already have been collected and submitted to the secretary of state. Lenardson foresees no problems getting the initiative on the ballot.

Florida Businesses Back Limits

In Florida, the National Federation of Independent Business is sponsoring an effort called “Your Dollar, Your Decision” to enact a spending limit on local governments via the initiative and referendum process. The measure is scheduled for the ballot in 2010.

Unlike the amendments in Colorado and Maine, the Florida initiative does not explicitly impose any restrictions on tax hikes, nor does it return any surpluses to taxpayers. It is strictly a revenue limitation amendment, allowing local government receipts to increase only as fast as the rate of inflation plus population growth. Any excess tax collections go into a separate cash reserve, which is applied as revenue in the following year.

The initiative is meant to encourage tax cuts, as local governments will be unable to amass huge “slush funds.”

The Florida initiative also allows voters to approve revenue increases. This makes citizens more likely to support the initiative, as they tend to find such an “opt-out” reassuring, according to Allen Douglas, legislative affairs director for NFIB in Florida.

Initial polling has shown overwhelming support for the initiative, “in the mid-70 percent range,” said Doug-

“This TABOR limits annual increases in government revenues to inflation plus the rate of population growth, subjects any tax hikes to a citizens’ vote, and returns surplus revenues to taxpayers.”

State Court Must Weigh In

To make the ballot, 675,000 valid petition signatures are required. The Florida Supreme Court also must review the proposition for clarity and to ensure it meets the state’s “single-subject rule” requiring any initiative to be tightly written to cover only one issue. Douglas is cautiously optimistic the court will approve it.

“We did go to great lengths to pare this thing down to be as narrowly focused as you can get,” Douglas said.

“Democrats and the ‘usual suspects’ have been trying to change TABOR for years” in Colorado, said Poulson. “I think the most important thing to consider is that when people understand TABOR, and once they understand that it gives them control over fiscal policy, they support it.”

Josh Culling (jculling@ntu.org) is state government affairs manager for the 362,000-member National Taxpayers Union.
How Obama’s Budget Builds on Bush Precedents

Continued from page 1

attributable to the spendthrift example set by Bush and Congress, who ramped up both defense and nondefense spending. Even excluding recent financial bailouts and the takeover of Fannie Mae and Freddie Mac, real nondefense spending increased an average of 4.2 percent annually during Bush’s eight years in office.

In crucial ways, the Bush era domestic policy paved the way for Obama’s expansionist plans:

• **Deficit Spending.** Bush favored large spending increases, even in years with big deficits. Obama titled his budget A New Era of Responsibility, but his huge deficit spending will push up public debt as a share of GDP to levels not seen since the 1940s.

• **Keynesianism.** While some of the Bush tax cuts were pro-growth, many of his policies were marketed on the faulty idea of fueling short-term aggregate demand. Bush’s temporary tax cuts and financial bailouts laid the groundwork for similar Obama policies.

• **Undermining Federalism.** Bush increased federal intervention into state and local affairs, as with his education subsidies and mandates. The stimulus bill and Obama’s first budget further intervene in education and other state activities, which undermines the Constitution and nullifies the advantages of our federal system of government.

• **Health Care Expansion.** Bush pushed through the Medicare prescription drug benefit, which currently costs taxpayers $60 billion annually and is rising. Obama’s health care proposals are expected to cost more than $100 billion annually.

• **New Subsidies.** Bush added hundreds of new federal subsidy programs, and Obama’s budget has new subsidies for energy research, energy efficiency, broadband, education, high-speed rail, refundable tax credits, and other items.

• **Government Efficiency.** Bush focused on making federal programs more efficient instead of trying to eliminate them. Obama’s budget likewise promises to make programs work better and includes few terminations.

• **Tiny Spending Cuts.** Obama’s budget has tiny spending cuts marketed as if they were big reforms, a political strategy formerly used by Bush. For example, Obama is proposing to trim subsidies for wealthy farmers. The idea is to signal that one is a reformer without actually having to do the heavy lifting of serious budget cuts.

Both Parties Guilty

The examples illustrate that party labels have meant little in recent federal budget expansions. Each recent president has added new subsidy programs, expanded existing ones, and imposed new mandates on the states. Those changes usually have been retained by later presidents, resulting in outlays growing ever larger.

If taxes and spending rise, however, capital and labor must shift from more productive private activities to less productive government ones. Since productivity is the source of our high standard of living, that shift reduces American incomes over time.

Chris Edwards (cedwards@cato.org) is director of tax policy at the Cato Institute. An earlier version of this article appeared in the March 2009 edition of Cato’s Tax & Budget Bulletin. Used with permission.

Damage Caused by Government Fiscal Expansion

The reason the private sector is more efficient than government is not because it doesn’t make mistakes, but because it has mechanisms to purge mistakes and move resources to higher-valued uses. Government policymakers do the opposite—retaining failed programs year after year because they find it difficult to cut their supporters off from the gravy train.

As a result, resources get stuck in low-value uses, and the economy becomes less and less efficient.

Even if politicians were willing to make tough spending tradeoffs, government activities do not generate the price and profit signals needed to allocate capital and labor efficiently. The more the government expands into industries such as health care, the more destruction that is done to market signals, which makes it even more difficult for policymakers (and consumers) to pursue rational plans.

A further problem with government expansion is that federal programs are often horribly miscalculated. President Barack Obama wants to expand subsidies for energy research, for example, but he should know past federal energy subsidies have led to boondoggle after boondoggle.

Similarly, Obama thinks he can improve federal efficiency, and perhaps he can make some improvements. But he cannot change the fundamental factors that make the government such a poor allocator of resources.

— Chris Edwards

Former President George W. Bush addresses the World Economic Forum in March 2008. In several ways, his domestic policy paved the way for President Barack Obama’s expansionist plans.
Georgia Telecom ‘Slush Fund’ Escapes Reform

By Natasha Altamirano

Georgia lawmakers recently had the chance to stand up for taxpayers and stop an outdated telecommunications subsidy program that’s fraught with waste and abuse. Instead, state senators failed to move a House-passed bill to a floor vote before the General Assembly session ended April 3.

Georgia’s Universal Access Fund was created more than a decade ago to provide subsidies to rural telecom providers for extending service to under-served areas, but it has evolved into what taxpayer watchdogs see as a wasteful slush fund that lavishes taxpayer money on questionable and unnecessary spending projects, including tens of thousands of dollars for activities not even remotely related to telephone service.

State Rep. Clay Cox (R-Lilburn) sponsored House Bill 168, which would have eliminated the UAF. The bill passed the state House of Representatives March 10 by a vote of 123 to 42, but it stalled in the Senate Committee on Regulated Industries and Utilities. Cox said he’ll “absolutely” introduce similar legislation in the next General Assembly session.

‘Just Bad Policy’

“The underlying principle is that government should not be taking money from one private company and giving it to other private companies. It’s just bad policy,” Cox said. “Any time government gets in the business of picking winners and losers, everyone loses.”

Originally meant as temporary compensation to small phone companies for losses in access revenue, the UAF has recently swollen by some 500 percent—from about $3 million in 2007 to more than $15 million today—due in no small part to waste and abuse. A single state audit found more than $20,000 of UAF money was spent on a holiday party and $15,000 on a dinner, and some funds went toward repairs on a cabin in North Carolina.

“A fund so opaque and unaccountable is clearly not in the best interests of the consumers and taxpayers who are struggling to make ends meet,” said Joshua Culling, state government affairs manager for the National Taxpayers Union. “H.B. 168 would have provided some much-needed relief to citizens who see roughly half of their monthly phone payment siphoned away by direct taxes, pass-through taxes, and fees.”

Government Debt Threatens Living Standards

By Tammy Nash

One of the nation’s top accountants warned, “the most serious threat to the United States is its own fiscal irresponsibility” at a screening of a movie focused on the nation’s debt and government’s “fuzzy accounting” practices.

“Our current standard of living is unsustainable unless some drastic action is taken, and we must begin to take steps to face our deficits,” said David Walker, former comptroller general under President Bill Clinton, as he addressed approximately 100 people at an April 6 meeting of the Institute for Truth in Accounting in Chicago.

The national debt now totals $11.2 trillion, up 29 percent in less than two years, according to the institute.

National debt is the total amount the federal government owes to holders of the government’s bonds.

Gigantic Debt, Misleading Accounting

Walker and U.S. Rep. Mark Kirk (R-IL) were headliners at the meeting, which featured highlights from IOUSA, a movie produced by Christine O’Malley and directed by Patrick Creadon, which had its world premiere at the 2008 Sundance Festival. The Institute for Truth in Accounting is a seven-year-old nonpartisan organization focused on attacking the nation’s public debt.

Institute President Sheila Weinberg said the film gives viewers concerned about the growing public debt a better understanding of the financial effects of current accounting practices in the United States.

“Our goal,” Weinberg said, “is to bring awareness to fuzzy accounting techniques in federal, state, and local government budgets.”

IOUSA covers financial irresponsibility on the part of the federal government back to March 4, 1789, when the government was created. For instance, the movie documented how, over the past 40 years, the nation has had 35 budget deficits.

Need for Constraints, Reforms

Walker and Kirk fielded questions from the audience and stressed the deficit problem can be solved only with tough budget constraints and reform of Social Security, Medicare, Medicaid, and the tax system.

Kirk added, “We need complete transparency via the Internet, and accountability.”

Tammy Nash (tnash@heartland.org) is a media specialist at The Heartland Institute.
States, Local Governments’ Impact on Freedom Revealed

Study ranks personal and financial freedom in the 50 states

By Jason Sorens and William Ruger

With the nation anxiously waiting to find out whether the federal government’s stimulus package will boost the economy, it is easy to lose sight of the fact that state and local governments can affect our pocketbooks and personal lives as much as Congress can.

For those interested in living in a relatively free society, today’s level of state intervention in the market and our personal lives is worrying. The fiscal problems of the more-profligate state governments prompted Congress to spend $87 billion of the recently passed stimulus package to bail them out of their Medicaid deficits.

However, not all states are equal in the tendency to infringe on their citizens’ freedoms. This variance has allowed Americans who value economic and personal liberty to vote with their moving vans by relocating from less free to freer states, according to Freedom in the 50 States: An Index of Personal and Economic Freedom, a new study published by the Mercatus Center at George Mason University.

The study ranks states on government spending, taxes, and regulations on market transactions and private behavior. The five freest states in our ranking are New Hampshire, Colorado, South Dakota, Idaho, and Texas, in that order. The five least-free states, from the bottom up, are New York, New Jersey, Rhode Island, California, and Maryland.

The inland West, from the Mississippi River to the Rockies, tends to be relatively free, while Northeastern and Pacific coastal states are mostly interventionist.

State and local governments regulate workplaces, land use, and health insurance. They tell individual citizens how to educate their children, where they are permitted to smoke, which kinds of firearms they may own, and when they are allowed to buy liquor.

‘Liberal’ States Less Free

In general, ideologically moderate and conservative states are freer than politically liberal ones, especially on economic issues such as taxes and government debt. On personal issues, conservative states are more likely to employ harsh punishments for marijuana users, even those using it for medical purposes, and to prevent same-sex couples from having state-sanctioned marriages. Some, such as Utah, strongly discourage gambling and alcohol purchases.

Liberal states tend to be nanny states when it comes to smoking on private property, gun control, helmet and seat belt laws, restrictions on home schooling, and campaign finance laws.

Moving to Freer States

Freedom in the 50 States provides a guide for freedom-loving individuals interested in making a move and businesses looking to find more hospitable economic conditions.

“Freedom in the 50 States provides a guide for freedom-loving individuals interested in making a move and businesses looking to find more hospitable economic conditions.”

Gun Control on Trial: Inside the Supreme Court Battle over the Second Amendment

BY BRIAN DOHERTY

The Supreme Court recently decided a question at the heart of one of America’s most impassioned debates, ruling that individual citizens have the constitutional right to possess guns. With exclusive behind-the-scenes access, the author delves into the landmark Heller case and provides a compelling look at the inside stories of the forces that fought for and against the Second Amendment.

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Gun Control on Trial is an essential history made up of equal parts legal theory and personal struggle, presented in page-turning fashion.

—GLENN REYNOLDS
Professor of Law, University of Tennessee; Founder, Instapundit.com

“Freedom in the 50 States provides a guide for freedom-loving individuals interested in making a move and businesses looking to find more hospitable economic conditions.”

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JUNE 2009
Union ‘Card Check’ Bill Stopped in U.S. Senate

By Scott Dilley and Rachel Culbertson

Sen. Arlen Specter (R-PA) has blocked a vote on the Employee Free Choice Act, also known as “card check,” once again putting himself at the center of the debate.

The card check measure—a priority of labor unions—would eliminate the requirement of secret ballot elections to form a union. It also could subject employers and unions to binding arbitration by federal officials and would penalize employers, but not unions, for any labor practice violations.

In 2007 Specter was the only Republican to vote with the Democrats to end debate on card check. Even with Specter’s vote, Democrats did not have the 60 needed to end debate and force a vote on the bill.

This year, with fewer Republicans in the Senate, Specter’s vote became pivotal. His vote against cloture likely leaves Democrats one short of moving the measure forward.

Wants Revisions

Specter explained his decision by saying he has concerns about the current version. He pointed to the measure’s elimination of the requirement for a secret ballot vote, which he said is “the cornerstone of how contests are decided in a democratic society.”

Specter also said the bill’s arbitration provisions may unfairly subject employers to outcomes they cannot support. Such a scenario is in direct violation of the Wagner Act, which makes the employer accountable for a contract to which he or she agrees.

However, Specter also said unions “have suffered greatly” from the outsourcing of jobs and now face possible losses in pensions and health benefits. He indicated a willingness to compromise and suggested 12 revisions, including elections to be held within 10 days of the filing of a joint petition from the employer and union.

Specter also called for applying penalties to either a union or an employer for unfair labor practices, such as visiting an employee’s home without prior consent during a representation campaign. Other suggested changes would require parties to begin negotiations within 21 days after a union is certified and would allow 120 days from the first meeting to call for federal arbitration.

Specter also suggested the arbitration provision could be “substantially improved” by including a “last best offer” procedure because that could provide an incentive for both parties to work toward a deal instead of holding back and demanding arbitration.

Compromise Offered

Meanwhile, three large retailers offered their own compromise. A proposal by Costco Wholesale, Starbucks, and Whole Foods Market would uphold secret-ballot elections and drop the binding arbitration provision. Their plan calls for expanded penalties for companies that retaliate against employees during a union drive or refuse to participate in collective bargaining.

The proposed compromise also calls for penalties on unions that violate the law and for easier union decertification elections.

The goal of the companies’ suggestion was to “trigger a conversation between business and labor,” said their attorney, Lanny Davis.

Scott Dilley (sdilley@effwa.org) and Rachel Culbertson (rculbertson@effwa.org) are labor policy analysts at the Evergreen Freedom Foundation in Olympia, Washington.

New Book from the Cato Institute

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Illinois Spending Soars, Governor Seeks Tax Hikes

By Kristina Rasmussen

Illinois state government is facing a budget deficit between $8 billion and $11.5 billion, and Illinois citizens are facing tax and fee hikes that could take billions more from them.

Gov. Pat Quinn (D)—the one-time lieutenant governor to indicted and impeached Gov. Rod Blagojevich (D)—insists tax hikes are necessary to balance the budget.

Not so fast, say other state leaders.

“Over the last six years, we have seen state spending grow by over $9 billion—a 41 percent increase. We need to implement some accountability and responsibility to begin holding the line on both taxes and spending.”

TOM CROSS
HOUSE REPUBLICAN LEADER
OSWEGO, ILLINOIS

“Over the last six years, we have seen state spending grow by over $9 billion—a 41 percent increase. We need to implement some accountability and responsibility to begin holding the line on both taxes and spending.”

50 Percent Tax Hike

Quinn’s budget calls for at least $3.5 billion in new revenues. The personal income tax rate would be increased by 50 percent, and the corporate income tax also would be raised, making it the fourth highest in the nation.

“Illinoisans already pay high sales taxes—Chicago’s 10.25 percent rate is the highest of any large city in America—and above-average property taxes,” said Josh Barro, staff economist with the Washington, DC-based Tax Foundation.

“Not just on ‘Wealthy’

Quinn aims to soften the blow for some by increasing the standard personal exemption that is applied before income taxes are calculated, but doing so won’t shield many taxpayers.

Under Quinn’s plan, according to a recent Illinois Policy Institute study, a single taxpayer making more than $14,000 a year would pay more in taxes, as would a couple bringing home more than $28,000. A three-person family with household income topping $42,000 also would be hit with a higher tax bill.

“The last thing the hard-working families in this state need is an income tax increase,” said state Rep. Michael Connelly (R-Naperville). “We can better help our residents by passing spending transparency legislation, which would allow us to get a grip on the tens of billions of taxpayer dollars that the government already spends. Transparency is to government waste what an MRI is to a disease—a roadmap to removing the ailment.”

Spending Hikes

While Quinn did make some cuts to state spending, most notably to the costs of public employee health care and retirement benefits, he increased proposed expenditures for certain government agencies, including education and health care.

In early April, Illinois Senate Republicans released a spending cut blueprint they say would save $3.4 billion per year, primarily by relying on reforms to Medicaid, public retiree health care benefits, and procurement practices.

“Corruption, mismanagement, lack of leadership, reckless spending, and anti-business tax schemes have caused this deficit,” said Illinois State Senator

IN OTHER WORDS

“Over the last six years, Illinois has ranked 45th out of 50 states in job creation, according to the American Legislative Exchange Council. In 2008, 175,000 jobs vanished—a medium-sized city of lost jobs. Mr. Quinn’s tax increase will mean 50 percent higher taxes for nearly every small business, subchapter S company, and corporation in the state.

“This is a state that does almost everything wrong economically. It is not a right-to-work state and is thus heavily unionized, repelling new business investment. It has the fifth highest minimum wage among the states, the fifth most trial-lawyer friendly legal code, the sixth highest workers’ compensation costs, and the 11th highest property taxes. It has one of the highest inheritance taxes, at 16 percent, so retirees flee to states with no death tax, such as Florida and Arizona. A rare Illinois advantage has been its relatively low income-tax rate, but that will shrink or vanish under Mr. Quinn’s increase.”

House Editorial
The Wall Street Journal
March 21, 2009

“Ending corruption, encouraging job growth, and keeping taxes low will solve our state’s budget problems. We need more jobs, not more taxes.”

DAN DUFFY
STATE SENATOR
BARRINGTON, ILLINOIS

Dan Duffy (R-Barrington). “Ending corruption, encouraging job growth, and keeping taxes low will solve our state’s budget problems. We need more jobs, not more taxes.”

Whopping Cigarette Tax Hike

Quinn also is pushing for a $1 increase in the state’s excise tax on cigarettes, currently at 98 cents a pack, with the intent of using the money to bring down the state’s Medicaid payment backlog.

Taxpayer advocates are concerned the expected revenues from a tobacco tax hike won’t materialize as the higher price point drives users away.

“A tax increase with such uncertain revenue prospects is a terrible proposition,” said Joshua Culling, state government affairs manager for the National Taxpayers Union. “In fact, I wouldn’t be surprised to see a New Jersey effect, where the state actually loses money as a result of the cigarette tax hike.”

Many are questioning the long-term impact of a tax hike on Illinois’ economy. The state ranks 44th and 48th, respectively, in its economic outlook and performance, according to the ALEC-Laffer State Economic-Competitiveness Index.

$8.6 Billion in Lost Output

Tax policy economist Scott Moody calculates Quinn’s personal income tax hike would cost the Illinois economy $8.6 billion in lost output over the long term.

“To put this massive sum into perspective,” said Moody, “the hidden cost of Gov. Quinn’s tax hike is the economic equivalent of taking all the 2008 tax revenue from the sales tax, cigarette tax, liquor tax, inheritance tax, corporate franchise tax and fees, and insurance taxes and fees and dumping that money into Lake Michigan.”

Moody believes the governor and General Assembly should instead focus on reducing spending.

“That is the only sustainable way to balance the budget and lower taxes in order to put Illinois back on the path to economic recovery,” Moody said.

Kristina Rasmussen (krasmussen@illinoispolicyinstitute.org) is executive vice president of the Illinois Policy Institute.
Mike Quigley takes Rahm Emanuel’s Congressional seat

By John W. Skorburg

With little money and no help from the Chicago political machine, Cook County Board Member Mike Quigley on April 7 won a special election for the Congressional seat formerly held by Rahm Emanuel, now chief of staff for President Barack Obama.

Garnering 22 percent of the vote in a special election involving a dozen other candidates earlier this year, Quigley quickly put himself in a position to win the April general election against two rivals.

Quigley was elected to the Cook County Board in 1998 and earned a reputation as a maverick Democrat unafraid to stand up to the corrupt spending and political patronage practices of the local Democrat machine.

Possible Fiscal Conservatism

In a recent interview on WGN Radio in Chicago, Quigley used phrases such as “no new taxes” and “streamlining government” like a fiscal conservative.

In an interview for this story, Quigley offered his thoughts on a variety of issues. “The American people are concerned about the ability of their government to spend money wisely,” said Quigley concerning the lack of accountability for nearly $700 billion of Troubled Asset Relief Program funds the Treasury Department has given to financial institutions and even forced them to take.

“We must allow the people to see exactly what their money is being spent on, where it’s being spent, and to whom it has been given,” Quigley added. “The proposal for a centralized Web site monitoring the stimulus funds is a good one and should be easy to use.”

Favors Fed Bailout for State

On the current state of the Illinois economy and the proposal for a 50 percent state income tax hike, Quigley appears to be against raising taxes during a downturn but in favor of the feds providing short-term help.

“State governments must be given significant aid to prevent service reductions and to support unemployment and Medicaid programs,” Quigley said. “This one-time fix should allow us to get our fiscal house in order and protect vital services the people of Illinois rely on in this time of crisis.”

Quigley has been a reformer and promises to take this attitude to Congress. “Like I did for Cook County, I’ll work with the new president and Congress to make sure that all government contracts valued at more than $25,000 will be competitive,” said Quigley. “I will also work to cut pork barrel spending and end wasteful government spending by examining the federal budget and creating new ways to use valuable taxpayer resources responsibly.

“In 2005 I authored and passed two successful amendments to the County Code of Ethics,” Quigley added. “The first doubled the period during which a former county employee is barred from working for a county contractor from one year to two. The second requires bidders on county contracts to disclose political contributions and any former county employees on their staffs.”

‘Never Voted’ for Tax Hikes

Quigley describes himself as having a “commitment to being a fiscal watchdog.” He says he has “never voted for a tax increase” and “fought vehemently” against the recent 1 percent sales tax increase that makes Cook County “one of the most expensive areas in the country.

‘I’ve gotten over 300 stitches in my life, and I’m not finished fighting yet. I can’t wait to introduce myself to the special interests in Washington.”

MIKE QUIGLEY
U.S. REPRESENTATIVE - ILLINOIS

to live and raise a family.

“I’ve gotten over 300 stitches in my life, and I’m not finished fighting yet. I can’t wait to introduce myself to the special interests in Washington” said Quigley on his upcoming move.

John Skorburg (jskorburg@heartland.org) is associate editor of Budget & Tax News and a policy advisor to The Heartland Institute.

Tax-Fighter, Reformer Beats Illinois Democrat Machine

‘Maverick’ Supports Obama on Cap-and-Trade

Although characterizing himself as a maverick fiscal conservative, new Congressman Mike Quigley of Illinois is still a mainline Democrat when it comes to the environment, supporting his party.

“I will work with President Obama to establish a cap-and-trade policy aimed at reducing pollution from greenhouse gases to 1990 levels by 2020 and an 80 percent reduction by 2050,” Quigley said. “The credits can be auctioned off to not only create a level playing field for all sources of energy, but the proceeds of the auction will help support the accelerated development of renewable energy.”

— John Skorburg

The American people are concerned about the ability of their government to spend money wisely. We must allow the people to see exactly what their money is being spent on, where it’s being spent, and to whom it has been given.”

MIKE QUIGLEY
U.S. REPRESENTATIVE - ILLINOIS

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Maryland Mulls Takeover of Money-Losing Racetracks

By Marta Hummel Mossburg

Marylanders own many money-losing enterprises, including a golf resort in the western mountains and real estate in Baltimore City that the state can’t rent, sell, or subsidize. The state may add another failing business to its portfolio: racetracks.

Magna Entertainment Corp.’s bankruptcy filing in March opened up the possibility for the state to own Laurel Park and Pimlico Race Course, home of the Preakness Stakes, and the government is considering it. Gov. Martin O’Malley (D) in April introduced a bill to seize the Preakness Stakes, under the power of eminent domain.

The state already sponsors gambling in the form of a lottery and chooses who runs slots parlors and how many machines are allowed in them. And since one of the main reasons to allow slots—passed by referendum as a constitutional amendment last November—was to subsidize horse racing, it would not be a great leap for the state to take over the industry.

Private Interest

Many other options are open. In March O’Malley met with Peter Angelos, owner of the Baltimore Orioles major league baseball team, about saving the Preakness. Real estate developer David Cordish, whose bid to open a slots entertainment complex at Arundel Mills is under consideration by Anne Arundel County, said he is interested in buying the tracks and the rights to the Preakness.

Senate President Determined

While those offers may prevail, state Senate President Thomas V. Mike Miller (D-Calvert) wants racing to stay in Maryland, by any means.

“The state has an interest in it, the governor has taken an interest, we have attorneys general in it, we’ve got private law firms hired by the state in Delaware,” Miller told the Baltimore Sun in April. “We’re going to find a way to keep the Preakness in Maryland. Period.”

“I’d suggest that the owners of Pimlico dismantle the track piece-by-piece, load it onto some trucks, and take it to a state where the government actually respects private property,” said Competitive Enterprise Institute Senior Fellow Eli Lehrer. “The Preakness has brought a lot of publicity and money to Maryland over the years. It’s ironic that Maryland’s government is now planning to steal it.”

No Stimulus Money

O’Malley spokesman Shaun Adamec said there is “no talk” of dipping into the $3.8 billion the state will receive from the federal economic stimulus program to purchase the tracks, noting 90 percent of the money already has been earmarked for specific programs.

Maryland Racing Commissioner J. Michael Hopkins would not comment on whether he wants the state to buy the tracks with federal tax dollars.

The racetracks have been attracting fewer people each year. Even racing’s subsidies from slots facilities cannot be counted on, as investors seeking slots licenses have requested fewer than half the machines allowed under the constitutional amendment. That means the more than $600 million the state anticipated each year from slots tax revenue will likely never materialize.

Marta H. Mossburg (mmossburg@mdpolicy.org) is a senior fellow at the Maryland Public Policy Institute.
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