New York Governor’s Budget Includes Big Tax Hikes, Deficit

By Thomas Cheplick

With the New York state government facing a budgetary disaster, Gov. David Paterson (D) has proposed raising more than $1 billion in new taxes and fees coupled with small spending cuts.

Paterson’s proposed budget has run into intense opposition from state house legislators worried it does nothing to increase New York’s global competitiveness. Experts are concerned the budget will not lead to more jobs for New Yorkers.

The budget proposal totals $121 billion in spending, with a deficit of $7.4 billion.

Taxes and fees would go up on a host of items, including movie tickets, taxi rides, soda, beer, wine, cigars, and music downloads and other digitally downloaded entertainment. New York is already one of the most heavily taxed states in the nation.

Driving People Out

Paterson’s proposed budget could drive out New Yorkers.

Bankers Balk at Tax Proposal

Bankers are up in arms about a tax proposal aimed at banks to cover government losses from financial bailouts.

Credit Unions Could Get Lending Aid

Some lawmakers are urging reduced government constraints on the ability of credit unions to make business loans.
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President Orders Deficit-Cutting Commission, Critics Skeptical

By Thomas Cheplick

After approving the largest budget in U.S. history, with a record deficit projected at more than $1.5 trillion, President Barack Obama (D) and Congressional Democrats announced they are now keen to start whittling down the nation’s government debt.

In late January Obama issued an executive order to create a deficit-cutting commission similar to one earlier proposed by Rep. Jim Cooper (D-TN) and Sen. Kent Conrad (D-ND). In January the Senate rejected their proposal, prompting the president to issue his order.

Many policy experts say the idea is “undemocratic” and “mere cover” for raising taxes.

The president would appoint commission members, who would recommend raising taxes, cutting spending, or doing both to curb a national debt the Congressional Budget Office warns could top $17 trillion by 2019, more than the nation’s current annual economic output.

Under the proposal rejected by the Senate, lawmakers would have had to accept or reject commission recommendations. Under the Obama order, Congress would not be compelled to take action on commission recommendations.

Purely Political

Peter Ferrara, director of the International Center for Law and Economics at the Institute for Policy Innovation, said he believes the deficit commission is being proposed only for political reasons.

He said support for the deficit commission “will be all dog and pony show meant to fool the voters this year and not accomplish anything, or it will be more serious, intended to snooker Republicans into providing political cover for raising taxes.”

No Action

Diana Furchtgott-Roth, a policy expert on congressional budgeting for the Hudson Institute in Washington, DC, is also suspicious about the motivations behind the deficit commission.

“Congress frequently sets up a ‘commission’ when it does not want to deal with a problem, but this is an example also of hypocrisy,” Furchtgott-Roth said. “Democrats say they are going to set up a ‘commission,’ but they are not going to do anything with it. Look at what happened to Paul Volcker’s tax commission that President Obama created. [Volcker was head of the Federal Reserve during the Reagan administration in the 1980s and is now an Obama administration advisor.] Nothing happened. His commission came forward with a recommendation, and nothing happened.”

David Henderson, editor of the Concise Encyclopedia of Economics and an economics professor at the Naval Postgraduate School in Monterey, California, is upset over the idea of a deficit commission.

“I have really strong views about this deficit commission,” Henderson said. “The whole idea is to get a bunch of ‘reasonable’ people in one room who will figure very quickly when they get together that the most vulnerable group is taxpayers, and while they may have a budget cut here and another budget cut here, what they will come up with is a tax increase over budget cutting.”

“The Democrats know it, and the commission will provide them with political cover to raise taxes because they can say, ‘we had to vote for this whole thing [recommendations of the Deficit Commission] up or down,’” Henderson added.

Political Cover

Jason Clemens, director of research at the Pacific Research Institute in San Francisco, said if Democrats hope the deficit commission will give them political cover against the charge they have nearly bankrupted the nation, it will not work.

“Even if the Democrats do set up a congressional commission, it will only give them cover to the extent that they can say they are trying to do something. But they own this out-of-control spending issue. They control the House of Representatives, the Senate, and the White House. They own where the economy will be eight months from now, and where the economy will be in 2012,” Clemens said.

“This is part of the fact that what they have done in the past year has been an abysmal failure,” Clemens added.

Thomas Cheplick (thomascheplik@yahoo.com) writes from Cambridge, Massachusetts.
A proposal to fund Illinois’ public employee pensions while limiting the future growth of government spending has caught the attention of Prairie State legislators.

The Illinois Policy Institute’s plan, the Pension Funding & Fairness Act, would enable Illinois to make its annual pension payments as required by law while protecting residents from tax increases.

Illinois faces $83 billion in unfunded public pension liabilities. The problem has been fueled by the state’s habit of underfunding its pension obligations, although the law requires they be 90 percent funded by 2045. Understandably, state employees are worried, and so are taxpayers.

‘Unprecedented Debt’

“One of the main reasons that our state is in such a fiscal crisis is the $80 billion pension debt that we are facing. This unprecedented debt puts a significant strain on our budget, as this year’s pension payment will surpass $5 billion,” said House Minority Leader Tom Cross (R-Oswego).

The Pension Funding & Fairness Act essentially would place speed limits on the growth of state government spending, based on the rate of inflation plus the increase in population. The state would fund its annual required pension payments by using the surplus revenue above the new spending limit.

Twice Rate of Inflation

Illinois’ revenues have grown at a 20-year historical average of 4.8 percent, twice the rate of inflation plus population growth. All revenue that comes in over the projected spending growth limit of 2.4 percent would be directed to the state’s annual pension contribution amounts.

Once the annual pension payment is made, surplus revenues above the required pension payment would be allocated to a Budget Stabilization Fund, and then returned to the taxpayers. Tax refunds could begin as early as 2018 and would total nearly $45 billion by 2025 and $702 billion by 2045.

The plan comes with a few transitional hurdles. In the initial years of implementing the plan (fiscal years 2011 to 2015), revenues above the spending cap are not expected to be sufficient to make the required pension fund payments. To fund that gap, assets sales and leases, like that of the Illinois Tollway System, would be considered along with further spending reforms. Alternatively, limited borrowing with tight payback covenants could be used.

The institute recommends the proposal be implemented initially by statute and then constitutionally via a referral by the legislature for a vote by the people.

‘Shows Way Out’

“After years of ignoring the accumulating costs of pension and other benefits, it’s about time that Illinois explicitly planned to meet its obligations in a realistic and timely way,” said Sheila Weinberg, founder and CEO of the Institute for Truth in Accounting. “The Illinois Policy Institute’s plan makes implicit but very real obligations explicit, and shows a way out of the fiscal hole we’re in.”

Illinois state Sen. Matt Murphy (R-Palatine) is advancing legislation to fund public employee pensions through a spending limit.

“Fixing Illinois’ pension funding problem will be challenging, but with the state running out of cash, taxpayers already strapped, and public employees wondering if their promised pension will be there, the time is right for creative and bold thinking,” said Murphy.

The proposal also caught the attention of state representatives. Cross said, “We must closely examine any proposal that moves Illinois toward fiscal solvency, and [the Institute’s plan] will be reviewed closely.”

Task Force Failure

Pension reform is guaranteed to remain a hot topic in Illinois and other states, as unfunded liabilities put a squeeze on general state spending. Observers say it’s an issue where inertia predominates.

For example, in May 2009 the Illinois General Assembly chartered the Illinois Pension Modernization Task Force and charged it with recommending changes to modernize state pension benefit systems. Task force members were unable to reach consensus on reform options. According to its November summary, “The lack of a majority-approved report underscores the seriousness and complexity of the issues facing the Task Force.”

Gridlock doesn’t sit well with legislators, who must deal with the increasing drain that state pensions make on the budget.

“Enough is enough,” said state Sen. Dan Duffy (R-Barrington). “We must go back to the basics and start fresh. We must reform pensions now, or this state will continue to spiral further into debt. Every year we continue these unsustainable programs, we cut the opportunities for our children in half.”

Additional Reforms

Ultimately, pension benefit reforms—like those suggested by Illinois Governor Pat Quinn and the Commercial Club of Chicago—may have to be paired with pension funding mechanisms like the institute’s plan.

“By embracing the Pension Funding & Fairness Act, Illinois will be able to protect taxpayers from out-of-control spending excesses and fully fund the annual required pension payment,” said John Tillman, CEO of the Illinois Policy Institute. “This has the potential to launch a new period of growth and government accountability in our state.”

Kristina Rasmussen (krasmussen@illinoispolicy.org) is executive vice president at the Illinois Policy Institute.

INTERNET INFO

The Illinois Policy Institute’s Pension Funding & Fairness Act: http://www.budgetandtax-news.org/article/26993
“New York has a high amount of government spending. New York spends 33 percent more per capita than the U.S. average. When your spending is this high, your taxes will have to be high as well.”

KAIL PAGGITT
TAX FOUNDATION

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High Spending, High Taxes

Kail Padgitt, a budget analyst at the nonpartisan Tax Foundation, explained that New York state simply spends too much money. “New York has a high amount of government spending,” Padgitt said. “New York spends 33 percent more per capita than the U.S. average. When your spending is this high, your taxes will have to be high as well.”

Padgitt says Paterson’s budget proposal fails to address problems with New York state’s tax code, which generates revenue in an ineffective way, furthering the need to raise taxes. High income tax rate brackets are a big part of the problem, according to Padgitt.

“New York has those two high personal income tax brackets on high-income earners. Remember that a lot of the income earned at that level doesn’t come from wages but rather capital gains and investments. These high tax rates can have a negative effect on people’s investment decisions,” Padgitt said.

“Additionally, the corporate income tax rate is high as well. Paterson’s budget does not attempt to go after those problems in a real way.”

Curtis Dubay
THE HERITAGE FOUNDATION

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Business Tax Credits Forecast

Dubay said he expects Paterson, with his eye on reelection, to propose business tax credits soon in an attempt to mitigate job losses from his tax increases. Dubay sees such tax credits as a bad trend among high-tax states.

“What is interesting is that we see that in a lot of places like New Jersey, New York, Connecticut, Oregon, Massachusetts, and Rhode Island, extremely progressive income tax systems which have punitive taxes against high-earners,” Dubay said. “Also in these states we see politicians regularly demonizing high earners, declaring they must ‘pay their fair share.’ Effectively, these states drive away productive individuals and businesses to other states.

“However, to mitigate the effects of this, governors often then offer tax credits to get some jobs ‘created.’ So they create a tax code that results in thousands and thousands of job losses,” Dubay said, “but they have tax credits that ‘create’ some jobs which governors can tout in advertisements.”

Thomas Cheplick (thomaschepllick@yahoo.com) writes from Cambridge, Massachusetts.
Government Pay Packages Have Room for Big Savings

By Chris Edwards

S

tate and local governments face large budget defi-
cits as revenues have stagnated and spending has
remained high. To reduce deficits, large savings can be
found in the generous compensation packages of the
nation’s 20 million state and local workers.

In 2008, wages and benefits of $1.1 trillion accounted
for half of total state and local government spending.

Public-sector pay averaged $39.66 per hour in
2009, 45 percent higher than the private-sector
average. The public-sector advantage was 34 per-
cent in wages and 70 percent in benefits.

Outlandish Pensions

A flood of news articles has highlighted the
excesses in public-sector pension plans, with
some cities and states providing truly outland-
ish benefits. Some of the factors driving up costs
in public DB plans include:

• Early Retirement. Public-sector workers
generally retire earlier than private-sector
workers and enjoy generous pension benefits
for life, indexed for inflation. They can typically
retire at age 55 after 30 years of work, as in Cal-
ifornia’s CalPERs system. Public safety workers
in CalPERs can retire at age 50 after 30 years
of work with benefits equal to 90 percent of
their final salary.

• Pension Formulas. Virtually all public-
sector plans calculate benefits based on pay
in the last one to three years of work. Pri-
ivate plans are more likely to use a lower-
cost approach such as the last five years
of pay or career-average pay. Also, public
plans typically have a more generous fac-
tor to adjust pension benefits for number of
years worked.

• Disability Claims. Governing magazine
notes, “hundreds of local governments and
several states are wrestling with what some
view as out-of-control disability pension
and health insurance systems hard-wired
to allow police and fire personnel to retire
early and with very generous benefits. At the
same time, they may pursue other full-time
careers.”

State and local governments across the
country face huge fiscal challenges. With
employee compensation representing half of
total state and local spending, large savings
could be found by freezing wages and over-
hauling excessive benefit packages.

Excessive Retirement Benefits

State and local workers have very generous defined-
benefit (DB) pension plans compared to private-sector
workers. These plans have been overpromised and
underfunded, creating huge long-term gaps in govern-
ment budgets.

According to official estimates, state and local pen-
sion plans are underfunded (or overpromised) by about
$1 trillion. And these estimates greatly understate the
poor shape of pension plans because they rely on opti-
mistic assumptions to value future liabilities.

A recent study by Robert Novy-Marx and Joshua
Rauh found governments are “severely underestimat-
ing” their pension liabilities by using high discount
rates. Using more realistic assumptions, the authors
found state and local pensions were underfunded by
$3.2 trillion, three times the officially reported amount.

In 2009, DB plans were available to 84 percent of
state and local workers but just 21 percent of private
workers. And public-sector DB plans are generally
much more generous than private DB plans. One study
found the median public-sector DB plan paid benefits
more than twice as high as the median private plan.

Pricey Public-Sector Perks

Public-sector workers have the largest advan-
tages in health insurance, defined-benefit pen-
sion plans, and paid leave. Government workers
also enjoy high job security. During good times and
bad, “layoffs and discharges” in the public sector
occur at just one-third the rate of the private sec-
tor.

One way to assess whether overall public-
sector compensation is too high is to look
at voluntary job quit rates. U.S. Bureau of
Labor Statistics data show the average quit
rate in the state and local government work-
force is just one-third the rate in the private
sector. That suggests state and local pay
is higher than needed to attract qualified
workers.

Regional Variations

Average compensation per hour for govern-
ment workers varies from $49.02 in the
Pacific region to $30.73 in the West South
Central region. Part of the variation results
from general differences in pay levels, as
reflected in private-sector pay differences
among the regions.

However, the data also show the ratio
of public- to private-sector pay is generally
higher in the high-pay regions. For example,
the Pacific region has the highest public pay
and a public pay advantage of 59 percent,
while the West South Central region has the
lowest public pay and a public pay advantage
of 26 percent.

One factor driving these regional differenc-
es is the degree of unionization of the work-
force. The four states with the highest public
pay have a high share of union members in
their public-sector workforces. Regions with
the highest public pay advantage generally have the
highest union shares.

“With employee compensation rep-
resenting half of total state and local
spending, large savings could be found
by freezing wages and overhauling
excessive benefit packages.”

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tor of tax policy studies at the Cato Institute. A ver-
sion of this article first appeared in Tax & Budget
Bulletin No. 59. Used with permission.
January 22, 2010 is a day that should live in infamy, at least among believers in limited government. On that day the federal government added its 2,000th subsidy program for individuals, businesses, or state and local governments.

The number of federal subsidy programs soared 21 percent during the 1990s and 40 percent during the 2000s. The entire nation is jumping aboard Washington’s gravy train. The recent addition of two new Department of Justice programs pushed us over the threshold to reach 2,001.

There is a federal subsidy program for every year that has passed since Emperor Augustus held sway in Rome. We’ve gone from bread and circuses to food stamps, the National Endowment for the Arts, and 1,999 other handout programs from the imperial city on the Potomac.

Doubled Since 1980s

Figure 1 shows the number of federal subsidy programs has almost doubled since the mid-1980s, after some modest cutbacks under President Ronald Reagan.

Most people are aware federal spending is soaring, but the federal government also is increasing the scope of its activities, intervening in many areas that used to be left to state governments, businesses, charities, and individuals.

To measure the widening scope, Figure 1 uses the program count from current and past editions of the Catalog of Federal Domestic Assistance (CFDA), an official compilation of all federal aid programs, including grants, loans, insurance, scholarships, and other types of benefits.

Expanding Federal Reach

Figure 2 shows the number of subsidy programs listed in the CFDA by federal department. It is a rough guide to the areas where the government is most in violation of federalism, the constitutional principle that the federal government must not encroach on activities that are properly state, local, or private.

As the federal octopus extends its tentacles ever further, state governments are becoming no more than regional subdivisions of the national government, businesses and nonprofit groups are becoming tools of the state, and individualism is giving way to a more European desire for cradle-to-grave dependency.

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By Kelsey Zahourek

When President Barack Obama campaigned for the presidency in 2008 he made big promises to the American people regarding the economy and trade.

A few months after his election, in April 2009, he attended the G20 Financial Summit in London, where he told world leaders, “History shows us that when nations fail to cooperate, when they turn away from one another, when they turn inward, the price for our people only grows.”

How does Obama measure up to those words after the one-year mark of his presidency? Two words could summarize his trade stance: staunch protectionist. Examples of Obama’s protectionist proclivities abound. They include “Buy American” provisions in the economic “stimulus” bill passed in February 2009. A month later, the Mexican government accused Obama of violating the North American Free Trade Agreement when he and lawmakers denied funding for a pilot program that would have allowed commercial trucks from Mexico to operate in the United States.

Next came increased tariffs on Chinese-made tires. That raised prices on low-end tires, directly affecting people in the lower tax brackets whom Obama had promised to protect.

Kelsey Zahourek (kzahourek@atr.org) is a federal affairs manager at Americans for Tax Reform.

“Two words could summarize [President Barack Obama’s] trade stance: staunch protectionist.”

A YEAR OF TRADE ACTIONS IN THE OBAMA ADMINISTRATION

Day 13 — February 1: The European Union warns the United States of serious ramifications, including an international trade war, if the president pursues a “Buy American” policy.

Day 29 — February 17: President Barack Obama signs the “stimulus” bill and violates his transparency pledge that he would allow legislation to be posted online for five full days before signing it.

The “stimulus” bill includes “Buy American” protectionist language. U.S. cities and some states need not follow the rules of the World Trade Organization (WTO) and North American Free Trade Agreement (NAFTA).

“I agree that we can’t send a protectionist message,” Obama said in an interview earlier in the month.

Day 65 — March 25: Mexico retaliates in response to the U.S. violation of NAFTA in the Omnibus Spending Bill by increasing tariffs on 90 U.S. products. Obama had inserted a provision in the bill denying funding for a two-year-old pilot program that allowed some Mexican trucks to operate in the United States.

“We consider that the United States is mistaken, protectionist, and clearly violating the treaty,” stated Mexico’s economy secretary, Gerardo Ruiz Mateos.

Day 165 — July 3: World Bank President Robert B. Zoellick warns that protectionism could impede recovery from a global recession.

“It seems appealing in countries to buy their own national products... Buy America. Buy Canada. Buy Chile. Buy China. But that’s the road to the problem that exacerbated the downturn in the 1930s and led to the Great Depression.”

Day 235 — September 11: Obama yet again breaks his campaign promise not to raise taxes when he announces the new tariff on Chinese tire imports. Americans for Tax Reform President Grover Norquist notes, “A tariff is nothing more than a tax on consumers.”

This tariff in particular hurts families earning less than $250,000 a year, because the tax applies primarily to lower-end tires.

Day 254 — September 30: Obama jumps in bed with labor unions when he humors the desire of the United Steelworkers and three domestic paper companies for more protection against makers of coated paper in China and Indonesia.

Day 277 — November 23: The Obama administration still struggles to pass the Colombia, Korea, and Panama Free Trade Agreements to open trade between the United States and those countries. The AFL-CIO and other big labor organizations play a key role in lobbying the administration into halting progress on free trade.

Day 345 — December 30: In what we’re sure was a happy end-of-the-year surprise to ailing U.S. industries, another tariff was announced against Chinese steel imports.

Day 354 — January 8: An article published by the Reuters news service urges the Obama administration to hurry up and pass the Free Trade Agreements for the sake of the U.S. economy.


A WTO panel will be asked to evaluate whether the U.S. tariffs violate rules governing trade among the WTO’s 153 members.
North Carolina Mulls Taxing Online Travel Agencies

By Sara Burrows

In a scramble to find new sources of revenue, North Carolina is looking into taxing services provided by online travel agencies such as Expedia, Travelocity, and Priceline.

Among the alternatives being considered by the Revenue Law Study Committee—which is looking at a host of tax reform proposals—is the notion of taxing the service fee online travel companies charge for booking hotel rooms. Doing so, legislative researchers said at a January meeting, could raise between $6 million and $8 million a year in new revenues.

The state now applies the sales tax to hotel rentals, with 5.75 percent going to the General Assembly and the remaining 2 percent to 2.25 percent directed to local governments. Many cities and counties also charge separate hotel occupancy taxes, with rates ranging from 3 percent to 8 percent.

Wholesale vs. Retail

Trina Griffin, a member of the state General Assembly’s research division, suggested the current state and local sales taxes applied to hotel rentals could be extended to online travel agents’ service fees by considering the fees a “markup” on the price of hotel rooms.

“One online travel companies (OTCs) contract with hotels for the right to broker or facilitate room reservations at a discounted rate,” stated a slide in Griffin’s PowerPoint presentation to the committee. The OTC then sells the room to a customer at a slightly higher price, which reflects the discounted room rate, a service fee, and a tax recovery charge. The hotel gets the room rate, the OTC collects the service fee, and the taxes are forwarded to the government.

The tax is based on the discounted room rate, which refers to as the “wholesale rate,” and not on the amount the customer actually pays, which Griffin calls the “retail” or “markup” rate. Some state officials think taxes should be assessed on the full price of the room rather than the discounted rate the hotels collect.

Andrew Weinstein, a spokesperson for the Interactive Travel Services Association, a trade group, says online travel agents should not be taxed as hotel operators because they do not operate hotels.

Fee, Not a Markup

Moreover, the difference between the amount the hotel receives and the amount the customer pays is a service fee, Weinstein said, not a markup on the price of the room.

The fee, ranging from 5 percent to 30 percent of the room rate, is a service charge for providing a Web site for consumers and facilitating the reservation, Weinstein said.

“It’s a creative interpretation of the law to twist service charges into part of the cost of the hotel room,” Weinstein said. “The occupancy tax was intended to be interpreted narrowly to apply only to the cost of the room.”

Room service and parking services, for example, are not covered by the occupancy tax, Weinstein noted.

Travel Industry Victories

Weinstein suggested any proposal at the state or local level to tax online travel agents separately would have tough sledding in court. Although several cities and counties across the country have sued online travel companies to collect the tax, most have lost their cases. And when local governments have won, the decisions have been appealed.

Six of the seven federal courts that have ruled on the issue have sided with travel companies, including the 4th U.S. Circuit Court of Appeals, which last year overturned Pitt County’s attempt to impose its local occupancy tax on online travel agents.

“The facts are on our side, the tax is on our side, and, most importantly, common sense is on our side,” Weinstein said. “If you’re not a hotel, you shouldn’t pay hotel taxes.”

Seeking Retroactive Windfall

Griffin said the state will most likely wait for pending court cases to be decided before acting. If federal appellate courts cannot agree on the legality of the tax, the issue could reach the U.S. Supreme Court, she said.

North Carolina would have another option if the occupancy tax cannot be applied to online travel agencies, Griffin said. Lawmakers could enact a new tax that would apply specifically to the service fee.

Creating a new tax would not generate as much money as applying an old one, since the state could not collect the new tax retroactively, as cities that have extended hotel taxes to online travel agencies have attempted to do.

More Cost, Complexity

Weinstein agreed enacting a standalone service tax would be more honest than applying the occupancy tax, but he said it would still backfire.

“A tax that hit the tourism industry would have a counterproductive impact,” Weinstein said. While cities and states might “collect more money temporarily, they’d lose revenue in the long run by discouraging tourism.”

Weinstein also noted the complexity online travel agents would face if forced to collect separate taxes charged at the state and local level. There are 7,000 taxing authorities around the country. If every city and county had different policies, he said, it would become impossible for travel companies to keep track of how much tax should be collected for each reservation. Double or even triple taxation might occur if cities, counties, and states imposed separate taxes.

“The possibilities become staggeringly complicated,” Weinstein said. “To have that many taxing authorities would drive online travel agencies out of business.”

Sara Burrows (sburrows@carolinajournal.com) is an associate editor of Carolina Journal, where this article first appeared. Used with permission.
Government Statistics Hide National Bankruptcy

By Phil Maymin

Do you believe everything the government tells you? Economist and statistician John Williams sure doesn’t.

Williams, who has consulted for individuals and Fortune 500 companies, now uncovers the truth behind the U.S. government’s economic numbers on his Web site at ShadowStats.com. Over the past several decades, Williams says, the feds have been infusing their data with optimistic biases to make the economy seem far rosier than it really is. His site reruns the numbers using the original methodology.

What he finds is not good.

Phil Maymin: So we are technically bankrupt?

John Williams: Yes, and when countries are in that state, what they usually do is rev up the printing presses and print the money they need to meet their obligations. And that creates inflation—hyperinflation—and makes the currency worthless.

Maymin: Obama says America will go bankrupt if Congress doesn’t pass the health care bill.

Williams: Well, it’s going to go bankrupt if they do pass the health care bill, too, but at least he’s thinking about it. He talks about it publicly, which is one thing prior administrations refused to do. Give him credit for that. But what he’s setting up with this health care system will just accelerate the process.

Maymin: Where are we right now?

Williams: In terms of the GDP, we are about halfway to depression level. If you look at retail sales, industrial production, we are already well into depression. If you look at things such as the housing industry, the new orders for durable goods, we are in Great Depression territory.

If we have hyperinflation, which I see coming not too far down the road, that would be so disruptive to our system that it would result in the cessation of many levels of normal economic commerce, and that would throw us into a great depression, and one worse than was seen in the 1930s.

Maymin: What can we do to avoid hyperinflation? What if we just shut down the Fed or something like that?

Williams: We can’t. The actions have already been taken to put us in it. It’s beyond control.

The government does put out financial statements using generally accepted accounting principles, where unfunded liabilities like Medicare and Social Security are included in the same way as corporations account for their employee pension liabilities. And in 2008, for example, the one-year deficit was $5.1 trillion. That’s instead of the $450 billion, plus or minus, that was officially reported.

These numbers are beyond containment. Even the 2008 numbers, you can take 100 percent of people’s income and corporate profit and you’d still be in deficit. There’s no way you can raise enough money in taxes.

Maymin: What about spending?

Williams: If you eliminated all federal expenditures except for Medicare and Social Security, you’d still be in deficit. You have to slash Social Security and Medicare. But I don’t see any political will to rein in the costs the way they have to be reinied in. There’s just no way it can be contained.

The total federal debt and net present value of the unfunded liabilities right now totals about $75 trillion. That’s five times the level of GDP.

Maymin: What can we, the people, do to stop the government from taking all our money?

Maymin: What can individuals do?

Williams: The only thing individuals can do now is to look to protect themselves. I wish I could see a way other than severe slashing of the social programs, which is politically reprehensible and would create great problems and social unrest. I don’t see that as a practical solution.

Maymin: If you’re a young 20- or 25-year-old guy or gal, would you move to another country? What would you do?

Williams: We still have a great country. We’re going through a period of economic pain. It’s happened before. This is the kind of thing that’s taken us decades to get into and it will take us decades to get out. Although the hyperinflation is going to be limited largely to the United States, the economic downturn will affect things globally.

I can’t tell you how things will go with a hyperinflationary Great Depression, which is where I see things going.

It’s the type of thing that will tend to lead to significant political change. People tend to vote their pocketbooks. You could have the rise of a third party. You could even have rioting in the streets. I’m not formally predicting that—anyone can run these different scenarios.

Maymin: The total federal debt now totals about $75 trillion. What do you find令人惊讶的是，政府的经济数据在网站上被重新计算，ShadowStats.com。在过去的几十年里，威廉姆斯说，联邦政府一直在将他们的数据与乐观的偏见结合起来，以使经济看起来比实际更好。他的网站使用原始方法重新计算了这些数据。

他发现的情况并不好。

Maymin: 所以我们现在是技术性的破产吗?

Williams: 是的，当一个国家处于这种状态时，他们通常会做的是重启印刷机，印刷他们需要的货币，这会带来通胀——超级通胀，并使货币变得毫无价值。

Maymin: 奥巴马说如果国会不通过健保法案，美国将面临破产。

Williams: 是的，但如果他们通过健保法案，我们也可能陷入破产，至少他在思考这个问题。他公开谈论它，这是前几届政府拒绝做到的事情。给他一些信用。但他正在设置一个将加速这个进程的健康护理系统。

Maymin: 我们现在在哪里?

Williams: 从GDP的角度来看，我们大约处于一半的通货紧缩水平。如果你看看零售销售和工业生产，我们已经陷入了严重的经济衰退。如果你看看如房地产等行业的新订单，我们已经陷入了严重的经济衰退。

如果发生超级通胀，我看到的危险将非常严重，它将导致整个经济体系的崩溃，更糟糕的是，1930年代的经济衰退。

Maymin: 我们能做些什么来避免超级通胀?如果我们就关闭美联储或其他类似的东西呢?

Williams: 我们不能。这些行动已经采取了，将我们置于困境，这已经无法控制。

政府确实会发布财务报表，使用公认会计原则，其中像医疗保险和社保这样的未偿付负债是按照公司报表中对员工养老金负债的方式进行包含的。例如在2008年，一年的赤字是5.1万亿，这意味着而不是4500亿美元，这被官方报道了。

这些数字远超出了控制范围。即使在2008年的数字中，你也可以把全国人民的收入和公司利润的100%加在一起，你还将会处于赤字中。没有一种方式能从税收中筹集到足够多的钱。

Maymin: 关于开支?

Williams: 如果你消除所有的联邦开支，除了医疗保险和社保，你仍然会处于赤字中。你必须削减社保和医疗。但我看不到任何政治意愿来控制成本，他们必须被控制。没有一种方式能从税收中筹集到足够多的钱。

Maymin: 人们可以做些什么?

Williams: 人们唯一能做的事现在是保护自己。我希望我能看到一种方式来解决社会项目的问题，这在政治上是不可接受的，会造成巨大的问题和社会不和。我看不到这是一种可行的解决方案。

Maymin: 当你是一个20岁的年轻人时，你会搬到另一个国家吗？你会做什么?

Williams: 我们仍然有一个伟大的国家。我们正在经历一段经济痛苦。这发生在之前。这是那种需要我们几十年才能进入的东西，并且它将花费我们数十年才能走出来。

Maymin: 联邦债务总值现在大约为75万亿美元。你发现令人惊讶的事有?

Williams: 我们正在经历一个超级通胀的经济紧缩时期。它已经发生过。这是那种需要我们数十年才能进入的东西，并且它将花费我们数十年才能走出来。虽然超级通胀将在美国受到限制，但经济衰退将影响全球。

我无法预测事情将如何发展，它将与一个超级通胀性的大萧条有关，这就是我所看到的。

它是那种人们将投票自己的钱包的时刻。你可以有一家第三党。你甚至可以引起暴乱。我不正式预测这种情况——任何人都可以运行这些不同的场景。

Maymin: 你认为这是一个在政治上的重大变化的时刻。人们倾向于投票自己的钱包。你可能会有一个第三党。你甚至可以引起暴乱。我不正式预测这种情况——任何人都可以运行这些不同的场景。

Maymin: 总的联邦债务现在大约为75万亿美元。你发现了令人惊讶的事吗?

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National Academy Issues Report on Fiscal Future

By Chris Edwards

A new study from the National Academy of Sciences looks at the federal government’s finances and lays out different paths the nation might take in the coming decades.

Choosing the Nation’s Fiscal Future focuses on efforts to control government debt and notes that a simplified tax system could make the process of raising revenue less damaging to the economy.

As a member of the NAS committee, I was honored to discuss and debate vital budget issues with such a high-caliber group. The following are my views on some of the more interesting aspects of the report.

Four Fiscal Paths

The NAS report does not provide a specific plan to cut federal deficits or reform fast-growing entitlement programs such as Medicare. Instead, it describes four possible fiscal paths the government might take in coming years. The paths are defined by the share of gross domestic product the government will consume.

For decades, federal spending has hovered around 20 percent of GDP. But official projections show if no cuts are made to entitlements, spending could rise to 33 percent of GDP by 2040 and about 60 percent of GDP by 2080. That would create massive increases in federal debt, crushing tax burdens, or both.

The four NAS scenarios would limit federal public debt to 60 percent of GDP under various taxing and spending combinations. The low scenario would keep the government at about the same size as today. Under the other scenarios, payroll taxes would increase and all individual income tax rates would rise to generate added revenues.

Debt Control

The NAS report focuses on controlling government debt and is neutral on the overall size of government. The report concludes that unless reforms are made, rising debt may raise interest rates, reduce domestic investment, push the dollar down, and create other economic damage.

The report’s projections do not take into account the macroeconomic effects of tax changes. If tax rates were to rise as under the larger-government options, GDP likely would shrink, and higher tax rates would be needed to generate the revenues required to stabilize federal debt.

“The NAS report focuses on controlling government debt and is neutral on the overall size of government.”

The NAS report recognizes that for any given level of federal spending, the tax code could be reformed to make raising the needed revenue less damaging. An alternative Simplified Tax was modeled for each of the four spending scenarios. The ST would scrap almost all deductions, exemptions, and credits under the individual income tax, and it would have rates of 10 and 25 percent instead of the current six rates.

The lower rates and more neutral tax base of the ST would reduce the economic damage caused by taxation. To that end, the plan also would cut the federal corporate tax rate from 35 to 25 percent. A study by the Organization for Economic Cooperation and Development found the corporate income tax is the most economically harmful tax.

If Congress holds spending to the “low” level, the ST would allow families to enjoy a simpler tax system with lower rates. The ST would have the same distribution with respect to income groups as the current tax code when implemented in 2012, although the NAS report shows the distribution would change modestly over time.

For those who favor the higher-spending scenarios, an ST-style tax reform also would be attractive. The higher economic growth generated by the ST would partly ease the rising burden of increased entitlement costs. And the ST’s broader tax base would mean a value-added tax would not be needed under any scenario.

Living Standards

The NAS report leaves it an open question how a larger government may affect living standards.

In thinking about that, note that government spending is of two basic types: production of goods and services, and income transfers through subsidies and benefits. As a share of GDP, government production has been fairly stable over time, but income transfers have skyrocketed.

Income transfers reduce GDP because extracting taxes creates economic distortions and providing handouts generates unproductive behavior by the recipients.

For example, Social Security reduces savings and encourages early retirement; welfare reduces work incentives; farm subsidies induce inefficient farming practices; and so on.

By contrast, government production activities could, in theory, generate positive returns. However, experience has shown that the performance of federal programs and investments is often abysmal.

Another problem is that governments in the United States already consume more than one-third of GDP, so it is unlikely that added spending could earn a high enough return to overcome the economic losses caused by higher taxes.

Restrictions on Freedom

The future size of government will affect individual freedom as well as economic growth. Larger governments inevitably restrict the autonomy of individuals and their communities.

The health care bill before Congress, for example, would give new powers to the Internal Revenue Service, mandate the purchase of health insurance, and impose new regulations on businesses. Or consider how expanded federal education spending has gone hand-in-hand with greater federal control over local schools.

The NAS report provides a useful framework to help the public understand the options for solving the looming fiscal crisis. When considering those options, people should think about both the economic and civil liberties implications of alternative fiscal paths.

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INTERNET INFO

Choosing the Nation’s Fiscal Future, report of the National Academies: http://www.budgetandtax-news.org/article/26991
**Author Discusses ‘Econoclasts’ Who Restored U.S. Prosperity**

By Steve Stanek

Few historians have the chance to write a history of something no one else has ever written about.

For Brian Domitrovic, an assistant professor of history at Sam Houston State University, writing *Econoclasts: The Rebels Who Sparked the Supply-Side Revolution and Restored American Prosperity* (ISI Books, 2009) was that chance.

For readers it is a chance to learn about the economists, newspaper columnists and editors, lawmakers, and others who helped bring about the “supply-side” revolution in economic thinking that President Ronald Reagan embraced to shake the country out of the economic malaise of the 1970s. That decade’s chief economic feature was “stagflation,” a combination of high inflation, high unemployment, and economic stagnation.

“I had been thinking about this topic since the Reagan years, since I was in high school,” said the 41-year-old Domitrovic. “Throughout the late 1980s and ’90s I maintained an interest in supply-side economics. When I decided to write the book in 2005, I had done the background reading. It was a matter of doing the archival work.

“It was fun because I just had to write a narrative. I realized I didn’t have to worry about others’ original scholarship, because no one has written on this. It was just go to the Hoover Institution, because no one has written on this.

“It was for one reason only that consumers behaved as they did and invested so heavily in real estate,” Domitrovic said. “One thing that scholarship and economic punditry have not done is translate economic concepts into the everyday vernacular. It’s one of the great reasons we, as a nation, are largely economically ignorant.”

Low, Simple, Sound

In doing his research Domitrovic learned the foundation for supply-side economics had been laid long before anyone had heard the term. He said the lessons of the book include the importance of low tax rates, a simple tax system, and sound money.

“At one point in the book, I point out when economies function well, you won’t find an economist around,” Domitrovic said. “We saw this in the 1800s. There was no reason for there to be economic explanations. If you saved money for retirement in 1840 and took it out of a jar in 1880, it was worth the same. Now in these days of inflation and high taxes, you have to be a genius to figure out how to save for retirement.”

He places much of the blame for this on two events in 1913: the creation of the Federal Reserve and the imposition of the federal income tax. Fed policies have slashed the value of the dollar, and the income tax has hindered wealth creation and redistributed wealth that is created.

“The most vicious effects of taxation and inflation have been on the lower-income groups,” Domitrovic said. “The rich know how to hide income. One of the primary hedges in the 1970s was to buy life insurance. Life insurance pays dividends not subject to tax.

“Warren Buffett is one of the biggest sellers of life insurance,” Domitrovic added. “His business boomed” from government policies that hurt millions of people. Buffett is the multibillionaire owner of Berkshire Hathaway, a holding company with various subsidiary companies, including insurance company GEICO, perhaps best known for its commercials featuring the GEICO gecko and others featuring modern-day “cavemen.”

Lessons for Today

Domitrovic said the lessons learned in the 1980s should be applied today.

“The American people are far smarter than their leaders, but that competition is not a stiff one,” Domitrovic said. “The Obama stimulus plan is laughable. [Federal Reserve Chairman] Ben Bernanke’s monetary policy is in blatant violation of almost all consolidated wisdom in economics. I entirely reject the thesis that the American consumer was irresponsible,” causing the real estate collapse and current economic crisis.

“It was for one reason only that consumers behaved as they did and invested so heavily in real estate,” Domitrovic said. “The Fed kept interest rates negative in real terms. The only logical response was to hedge that in land. The government demanded that consumers take out housing debt. The sins are all on the government’s side.”

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“For readers it is a chance to learn about the economists, newspaper columnists and editors, lawmakers, and others who helped bring about the “supply-side” revolution in economic thinking that President Ronald Reagan embraced to shake the country out of the economic malaise of the 1970s. That decade’s chief economic feature was “stagflation,” a combination of high inflation, high unemployment, and economic stagnation. “I had been thinking about this topic since the Reagan years, since I was in high school,” said the 41-year-old Domitrovic. “Throughout the late 1980s and ’90s I maintained an interest in supply-side economics. When I decided to write the book in 2005, I had done the background reading. It was a matter of doing the archival work.”

“It was fun because I just had to write a narrative. I realized I didn’t have to worry about others’ original scholarship, because no one has written on this. It was just go to the Hoover Institution, because no one has written on this.”

**BRIAN DOMITROVIC, AUTHOR, ECONOCLASTS**
Obama Budget Proposal Worries Some, Cheers Others

By Steve Stanek

Congress might approve spending bills, but it’s the president’s budget that initially grabs headlines.

Big headlines greeted President Barack Obama’s fiscal 2011 budget proposal because everything about it is big—the spending, the deficit, the tax increases.

Spending: $3.8 trillion. Projected deficit: $1.6 trillion. Tax increases: $2 trillion over the next decade.

The administration’s budget proposal “is nothing more than a plan for more of the same—a very aggressive agenda of more government spending, more taxes, more deficits, and more debt—with just a few cosmetic budget maneuvers to give the illusion of restraint,” said Rep. Paul Ryan (R-WI), ranking Republican on the House Budget Committee. “Despite my hope that the president would alter his course, his budget will make an already unsustainable budget outlook much worse.”

Lower Deficits, But Deficits

Ryan’s Democratic counterpart, House Budget Committee Chairman John Spratt (D-SC), took a more sanguine view of the proposed budget.

“The president’s budget keeps an eye on the bottom line,” Spratt said in a statement. “The deficit is cut by half, from $1.556 trillion in 2010 (10.6 percent of GDP) to $727 billion (4.2 percent of GDP) in 2013. The budget continues to bring the deficit down, until it reaches 3.9 percent of GDP in 2014. The president also proposes a bipartisan fiscal commission to develop proposals to bring the deficit down further.

“At the same time, the president’s budget funds additional initiatives to spur job creation—such as tax credits for small businesses that hire new workers. And the emphasis is on Main Street rather than Wall Street,” Spratt added.

Obama’s proposed budget is more than double the 2001 federal budget of $1.86 trillion.

Credit Rating Warning

In the same week the president introduced his budget proposal, credit rating agency Moody’s warned the United States could see its AAA bond rating downgraded. A downgrade would indicate the U.S. government is a more risky borrower. This would make repaying the government debts more expensive, forcing the government to spend more of its revenue to finance the trillions of dollars it has borrowed.

The national debt (the sum of all debts owed by the federal government) first hit $1 trillion in the 1980s. Congress recently raised the national debt ceiling to $14 trillion. Obama’s budget projects another $9 trillion in debt over the next 10 years.

No Debt Reduction Plans

University of Maryland economist Carmen Reinhart said she worries no one in government has a serious plan to bring the national debt down after the economy recovers. Reinhart is a research associate for the National Bureau of Economic Research and coauthor with Kenneth Rogoff of This Time Is Different: Eight Centuries of Financial Folly, published by Princeton University Press in 2009, an analysis of hundreds of years of fiscal foolishness by governments around the world.

For the immediate future, though, the budget deficit and national debt do not alarm Reinhart.

“Neither the deficits nor the debt have been surprising,” Reinhart said, “because it’s part of having a major financial crisis. The question is what is done going forward. In terms of where we are and what has transpired the last two years, my own view is that the sooner one has a plan in place to reduce the deficit burden the better. We don’t need to implement it today, but we should have a plan in place today.”

Reinhart said she does not believe the government should immediately tackle the debt because the economy is still too weak. However, with no serious plan to bring down debt, she fears high debt levels will linger and cause more economic harm.

High Debt, Lower Growth

Reinhart said there are few examples in history of countries successfully growing their way out of high levels of debt. The immediate post-World War II experience in the United States included declines in government spending that are not likely to be repeated.

Furthermore, she said, research shows “At gross debt levels above 90 percent of GDP, growth slows. Median growth falls 1 percent, and mean average growth rates fall a lot more.” National debt already tops $12 trillion, and the projected 2011 budget deficit would put it at more than $13.6 trillion, nearly 100 percent of GDP.

Others contend the government’s attempts to stimulate the economy are already doing economic harm by taking money out of the private sector and putting it into the government.

‘Not a Pretty Picture’

“It is not a pretty picture moving forward,” said economist Robert Ekelund, eminent scholar emeritus at Auburn University. He said a balanced budget amendment, even if passed, “would contain so many exceptions as to be ineffective. The best we could hope for is a marginal improvement or policies fostering economic growth without increasing deficits. Call me pessimistic because that’s what I am.”

Economist Mark Thornton of the Mises Institute might be even more pessimistic. Thornton began publishing articles warning of a housing bubble and coming economic crisis in 2004, nearly four years before the recession hit, and sees little improvement on the horizon.

“The budget and deficits are irresponsible and definitely threaten the economy,” Thornton said. “They are unsustainable, and, combined with the future unfunded liabilities of the U.S. government, will reduce the standard of living of the current and subsequent generation.”

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Congress, White House Take Aim at Local Democracy

By Wendell Cox

In most states and metropolitan areas, substantial policy issues such as zoning and land use decisions are largely under the control of those who have a principal interest—local voters who actually live in the respective cities, towns, villages, townships, and unincorporated county areas. That may be about to change.

Two congressional initiatives—the Boxer-Kerry cap-and-trade bill and the Oberstar transportation reauthorization bill—and the Obama administration’s “Livability Partnership” take direct aim at local democracy as we know it.

Boxer-Kerry Threat

The first threat is the proposed Senate version of the cap-and-trade bill written by Sen. Barbara Boxer (D-CA) and Sen. John Kerry (D-MA). Their Clean Energy Jobs and American Power Act (S 1733) would require metropolitan planning organizations (MPOs) to develop greenhouse gas emission reduction plans.

In these plans, the legislation would require consideration of issues such as increasing transit service, improvements to intercity rail service, and “implementation of zoning and other land use regulations and plans to support infill, transit-oriented development or mixed use development.”

This represents a significant step toward federal government adoption of much of the “smart growth” or “compact-development” agenda. The incentives that would be created could well spell the end of local control over zoning and land use decisions.

The bill includes language claiming it does not intend to infringe “on the existing authority of local governments to plan or control land use.” Experience suggests, however, this would provide little comfort in the behind-the-scenes negotiations that occur when a metropolitan area runs afoul of Washington bureaucrats.

Heavy-Handed Federal Intervention

The federal housing, transportation, and environmental bureaucracies have supported compact-development policies. As these agencies develop regulations to implement the legislation, they could be emboldened to make it far more difficult for local voters to retain control over land use decisions.

There could be multiple repeats of the heavy-handedness exercised by EPA when it singled out Atlanta for punishment over air quality issues. In response, the Georgia legislature was essentially coerced into enacting planning and oversight legislation more consistent with what EPA bureaucrats wanted. No federal legislation granted EPA the authority to seek such legislative changes, yet they were sought and obtained.

There is also considerable support for the compact-development agenda at the metropolitan-area level. The proclivity of metropolitan and urban planners toward compact development is so strong as to require no encouragement by federal law. The emerging clear intent of federal policy to move land use development to the regional level and to densify existing communities could embolden MPOs to propose plans that pressure local governments to conform their zoning to central plans (or overarching “visions”) developed at the regional level.

Surface Transportation Reauthorization

The second big threat to local authority is the Surface Transportation Authorization Act draft released by Rep. James Oberstar (D-MN), chairman of the House Transportation and Infrastructure Committee. This bill is riddled with requirements regarding consideration of land use restrictions by MPOs and states.

Unlike the Boxer-Kerry bill, the proposed STAA includes no language denying intention to interfere with local land use regulation authority.

Like Boxer-Kerry, the Oberstar bill would give significant new power to the Department of Transportation and the Environmental Protection Agency, and it poses similar longer-term risks.

Obama’s ‘Livability Agenda’

These legislative initiatives are reinforced by the Obama administration’s “Livability Agenda,” a partnership among EPA, the Department of Housing and Urban Development, and the Department of Transportation.

Among other things, this program is principally composed of compact-development strategies, including directing development to certain areas, which would materially reduce the choices available to local government. Elements such as these could be included in an eventual STAA bill introduced on behalf of the Obama administration.

These bills would force communities to face greater traffic congestion, higher congestion costs, and increased air pollution. As EPA models indicate, more traffic congestion, which is inevitable in the more dense environments that would result, produces more pollution than more freely flowing traffic, and the resulting higher traffic volumes make this intensification even greater.

“Directed development” also tends to increase land prices, which makes housing more expensive, hurting homebuyers and renters. It is particularly injurious to low-income households.

Quick Action Needed

The nation’s local government officials should “weigh in” on these issues now, while the legislation is being developed. If they wait, they could find themselves too late to the table.

Local citizens and voters also need to be aware of the risk. It will be too late when MPOs or other organizations, whether at their own behest or that of a federal agency, force the character of neighborhoods to be radically changed.

Without quick and concerted action to curtail these initiatives, local democracy will be largely dead, a product of a system that concentrates authority—and perceived wisdom—in the hands of the central governments at the regional and national levels.

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‘Irish Tax’ on Government Workers Suggested

By Thomas Cheplick

With signs of growing backlash against overly generous public employee pay, pensions, and other perks, politicians and policy experts have begun examining ways to “claw back” excessive contracts.

William Voegeli, a visiting scholar at Claremont McKenna College in California, suggests it could be legally permissible for states to implement a so-called “Irish tax” on generous public employee pay and benefits.

In an attempt to balance their national government budget, Irish lawmakers last year enacted a special tax on government employees’ pay. Analysts are calling it “the Irish tax.”

Not on Individuals

“State constitutions do not mimic the U.S. constitution, so I think the U.S. constitution’s ban of taxes against specific persons, called bills of attainder, ... might not have as big of a provision in each state,” Voegeli said.

A tax on the pay and perks of government workers might not be considered a bill of attainder because it could be viewed as a tax on an economic class instead of a tax targeted at individuals.

“Also, the bill of attainder provision does apply to the U.S. Congress, but the Supreme Court, in any circumstance, would not extend it to state legislatures,” Voegeli said.

The political consequences of such an effort could be serious, he notes, pointing out laws to tax government workers’ pay and benefits at higher rates would represent “mortal” threats to public employee unions.

“[An ‘Irish tax’] would only happen if you were talking about a state where the general tenor of public opinion regarding public employee unions and their power had taken a nosedive,” Voegeli said. “If you are going to try it, you better be pretty darn sure that it is going to win, because in defeat, the public employee unions will emerge much stronger.”

‘Backfire’ Fears

Adam Summers, a regulatory expert at the Reason Foundation in Los Angeles, worries an “Irish tax” could backfire on taxpayers.

“This would appear to be adopting the same rationale as many union members and others on the political left use in their quest to try to ‘soak the rich,’” Summers said. “Besides, given the power and influence of labor unions on the state legislature here in California, it could even backfire and just cause them to lobby—most likely successfully—for even greater compensation to make up for the added taxes.”

But Summers said he believes the prospect for passage of an “Irish tax” in California, especially, is growing because the public has become so incensed over government pay, health insurance, and retirement packages far more generous than those most private-sector workers receive.

Anger about Excesses

“The unions would vehemently oppose it and pour lots of money into an advertising campaign to fight it,” Summers said. “Even with all this money, though, there is a strong and growing anger among the nonunion public about excesses in the number of government employees and the benefits those employees command. I think it would still have a decent chance of success.

“There is a general wave of distaste for big government spending and elected officials now, so voters might see this as a way to fight back at Sacramento [California’s state capital] for all the mess the legislators and the unions and the special interests have caused,” Summers added.

Dean Baker, director of the Center for Economic and Policy Research in Washington, DC, does not understand the grumblings of those who want to institute an “Irish tax” in some states with high-cost public employees. He noted some government employees are being furloughed and said some are underpaid.

“I don’t doubt that there are some overpaid public employees, just like there are some overpaid private-sector employees, but blatantly hitting public employees with a tax, I do not quite understand the logic. A lot of public employees are underpaid,” Baker said.

“The [push for an ‘Irish tax’] is coming from people who do not particularly like public employee unions,” Baker said.

Bankruptcy Difficulties

Voegeli says another way for states and municipalities to get out of excessive public employee pay and pension packages is to go into bankruptcy. But he notes lawmakers in some states, including California, are making it more difficult for municipalities with large union debt obligations to do this.

“Outside of a court abrogating a [public employee union] contract in a bankruptcy situation, the feasible options to curtailing these things are few and limited,” Voegeli said. “Indeed, there was a law passed in 1999 in California, called Assembly Bill 400, that greatly increased pensions for state workers and that many counties and municipalities matched. And now as various counties and municipalities have seen their pension obligations absorb a bigger share of their entire budget, many are talking about going bankrupt, and there is a legal basis for that to happen.”

However, Voegeli added, Democrats in the California state legislature “have now, at the behest of unions, become very concerned about it and are trying prevent it from becoming too easy for municipalities and cities to declare bankruptcy as a means of abrogating their most expensive public employee contracts.”

Thomas Cheplick (thomascheplick@yahoo.com) writes from Cambridge, Massachusetts.
Pols Lived High on the Hog at Copenhagen Climate Talks

By David N. Bass

Taxpayers paid a heavy price for the failed climate change talks in Denmark, according to newly released reports detailing more than $500,000 in travel expenses for lawmakers, their staff, and experts to attend. The expenses include six days of lodging for some lawmakers who stayed only two days at a posh, five-star hotel.

Global warming activists hoped the summit, sponsored by the United Nations and held in December, would spur an international agreement to curb greenhouse gas emissions. Instead, world leaders approved a nonbinding declaration on climate change decried by environmentalists as too tame.

Documentation provided by House Speaker Nancy Pelosi's office in late January shows a total of $553,564 in travel expenses for 61 representatives and others who attended the talks on the taxpayers' dime. The list includes Pelosi (D-CA) and House Majority Leader Steny Hoyer (D-MD).

The group of about two dozen lawmakers spent $101,338 on lodging and dining at the five-star Copenhagen Marriott Hotel.

Lawmakers in the Dark

North Carolina's first district congressman, Democrat G.K. Butterfield, was one of the lawmakers attending the summit. In a statement, Butterfield said members weren't aware of the costs prior to the trip and that House leaders made the travel arrangements.

"Members have since been told that the seemingly high cost of lodging was the result of the hotel requiring a minimum of six nights, totaling $3,960 per room," Butterfield said. "We have also been told that delegations were assigned to specific hotels by conference organizers, and that delegations from around the world had the same issue with hotel requirements."

The cost for the entire U.S. delegation to attend was much higher than amounts in the documentation released by Pelosi. CBS News found 59 House and Senate staffers flew commercial to Copenhagen, totaling $408,064.

"Add three military jets—$168,351 just for flight time—and the bill tops $1.1 million—not including all the Obama administration officials who attended: well over 60," CBS reported.

"You had some staffers who were there 10 or 11 days," Williams said. "There was no reason to send so many people, regardless of what you believe about climate change."

David N. Bass (dbass@carolinajournal.com) is associate editor of Carolina Journal in Raleigh, North Carolina, where a version of this article first appeared.

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Enrollment in Food Stamp Program Hits Record, Doubles 2000 Level

By Steve Stanek

One in eight Americans, including one in four children, now receive government-subsidized food stamps, a record high.

The food stamp program, now called SNAP—Supplemental Nutrition Assistance Program—subsidizes food purchases for more than 37 million people, according to the U.S. Department of Agriculture, which runs the program.

Enrollment has been surging. In September 2009, the most recent month for which firm numbers are available, nearly 37.2 million people received SNAP benefits, an increase of 680,000 people from August, said Hans Bilger, a spokesperson for the Food and Nutrition Service of the USDA.

“The number of Americans receiving SNAP benefits has more than doubled since July 2000, when the national caseload hit a low point. SNAP participation has grown by more than 10 million in the last 24 months alone, an increase of 38 percent,” Bilger said. He attributes the surge in enrollment to the deep economic recession.

In the 1990s there was an effort in Congress to end the program, but President George W. Bush ended that effort, which had been led by fellow Republicans. Instead, Bush ramped up the program and dumped the “food stamps” label—with its welfare program connotations—and renamed it Supplemental Nutrition Assistance.

Budget analyst Ted DeHaven of the Cato Institute noted a New York Times article on the surge in SNAP enrollment included the story of a man who “gave in” when “an outreach worker appeared at his son’s Head Start program.”

“The New York Times piece has quotes from a USDA official saying he hopes enrollment continues to grow. That’s nothing to celebrate. We don’t want people dependent on government,” DeHaven said. “We ought to want to see people working and self-reliant.”

Last September, Agriculture Secretary Tom Vilsack announced grants totaling $3 million to six state agencies for pilot outreach programs to increase SNAP participation.

“Historically, seniors and the working poor participate in SNAP at lower levels than the general population, and these important outreach efforts can help close that gap,” Vilsack said in a statement.

DeHaven notes the federal cash welfare program kept rolls lean by not overly subsidizing the states.

“States until recently bore the entire cost of caseload growth, and nationally the rolls have stayed virtually flat,” DeHaven said. “We would have a more efficient government welfare system if the state governments that wanted to have welfare programs had to fund them using state tax revenues, without the subsidies and incentives for profligacy from Washington.”

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