Illinois Retirement Fund Seeks End to Pension ‘Spiking’

By John W. Skorburg

Officials with the Illinois Municipal Retirement Fund (IMRF) say they want the state to end the practice of pension “spiking,” which adds millions of dollars annually to the retirement benefits local government workers receive.

Spiking allows government workers to pad their future retirement incomes substantially by receiving large pay hikes during the last years or even months of employment. “The IMRF strongly opposes spiking. There are no ifs, ands, or buts about it,” said Ruth Faklis, president of the retirement fund’s board of trustees, in a statement.

The IMRF’s call for an end to pension spiking followed a Chicago Tribune investigation in

Illinois, p 4

Tax Increase Falls on Business Income

By Natasha Altamirano

Advocates of allowing the expiration of tax cuts on the top two federal income tax rates claim only 2 or 3 percent of businesses would be affected. But a new Tax Foundation report shows more than one-third of the revenue from an increase in the top two rates would come from business income.

Approximately 39 percent of the tax increase on high-income earners (defined by President Barack Obama as individuals earning more than $200,000 and married couples earning more than $250,000 in 2011) would come from business income. With a total 10-year tax increase of $630 billion, this amounts to an extra $246 billion...
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Former Wash. Supreme Court Justice Deems Income Tax Plan Unconstitutional

By Jason Mercier

Washington voters rejected Initiative 1098, which would have authorized a statewide income tax, by a vote of roughly 65 to 35 percent, according to early returns.

Had the measure passed, it likely would have been ruled unconstitutional, according to a legal analysis written for the Washington Policy Center by former state Supreme Court Justice Phil Talmadge.

Justice Talmadge was a state Supreme Court Justice from 1995 to 2001 and served as a Democratic member of the Washington State Senate from 1979 to 1995, where he chaired the Judiciary and Health Care Committees.

‘Clearly Unconstitutional’

Talmadge wrote, “Initiative 1098 is clearly unconstitutional on the basis of existing case law. Its enactment will only guarantee protracted litigation to determine if the initiative meets constitutional muster.”

Talmadge’s analysis addresses the argument of Initiative 1098 supporters that the state Supreme Court would overturn its past rulings and today rule in favor of a graduated income tax. Talmadge wrote:

“The proponents of a graduated net income tax in Washington have vociferously argued that these older cases are no longer viable, because they allegedly rely on United States Supreme Court precedent that no longer finds that income-based taxes constitute taxes on property. This argument finds full flower in a 1993 law review article [by law professor Hugh Spitzer]. The essence of the argument advanced by Mr. Spitzer is found in the Context section of Initiative 1098.

“However, since 1993, the Washington Supreme Court has been confronted with cases in which the continuing validity of the ‘income as property’ cases was questioned and has rejected the argument articulated in the Spitzer law review article.”

“Based upon this authority, it is likely the Washington Supreme Court would find the tax created by Initiative 1098 is a property, not an excise, tax.”

Justice Talmadge also found Initiative 1098 may violate basic equal protection provisions of the U.S. and state constitutions, because of the large exemption before the income tax applies:

“Finally, a feature of Initiative 1098 that has not received substantive analysis is the large exemption contained in the measure before the income tax applies, essentially targeting certain income earners for the tax. The constitutionality of such a provision on equal protection grounds is questionable. Both the 14th Amendment to the United States Constitution and Article 1, Section 12 of the Washington Constitution provide that Washington citizens are entitled to equal treatment under the law.”

Justice Talmadge added it is “difficult to understand the rational basis for the initiative’s conclusion that the magical point at which a graduated net income tax should start to apply is $200,000 for individuals and $400,000 for married couples in our state. Seemingly, if a graduated net income tax is wise public policy for Washington’s tax structure, it should apply more broadly to all income earners.”

‘Tightly Reasoned Analysis’

Dann Mead Smith, president of the Washington Policy Center, said the organization asked for Justice Talmadge’s legal opinion to gain insight into how the state Supreme Court would treat the claims of I-1098’s supporters.

“Justice Talmadge’s tightly reasoned analysis convincingly eliminates any gray area that proponents have attempted to create, and confirms that the only legal way to impose a graduated income tax on Washingtonians is through a constitutional amendment,” Smith said.

IN OTHER WORDS . . .

“Initiative 1098 will impose the state’s first income tax, on high-earners and business profits initially. Our state that once encouraged economic initiative and endeavor will now penalize success. We will turn from a state that boasts nationwide of its lack of income tax, to a state with one of the highest income tax rates in the country. We will discourage individuals and business from striving to move higher, by ensuring government takes most of the next dollar they earn. This proposed tax will fall heavily on the owners of small businesses, who will invest less, hire fewer workers, or simply move away. Businesses that rely on highly skilled workers will find recruiting more difficult.”

— House editorial, Wenatchee World, October 2
Ill. Retirement Fund Proposes End to Pension ‘Spiking’

Continued from page 1

September that disclosed “perks routinely boost the pensions of top retiring administrators in suburban and downstate local governments.” The newspaper estimates Illinois taxpayers have shelled out an extra $145 million over the past 10 years because of pension spiking.

Pressure on Lawmakers

An end to pension spiking practices would need the blessing of the state legislature.

State Sen. Randy Hultgren (R-Wheaton) said he is all for pension reform, including an end to “spiking” practices.

He cited a pledge he has made to local constituents and said, “I will continue to push for further pension reforms to keep our debt manageable and improve the fiscal outlook of the State of Illinois.”

The IMRF currently has just one rule to limit padding: It does not allow compensation increases to be swayed by any pay boost of more than 25 percent in the last three months of work. That limitation is meant to limit common end-of-career payouts to government employees for unused sick time and vacation days. The payouts sometimes can top a year’s worth of pay.

“Compensation increases paid during the final years of employment with the purpose of increasing a participant’s pension beyond the [pension code] limitations are not compatible with good pension plan administration and may be one cause of pension plan underfunding,” said Faklis in her statement. “Such compensation increases are antithetical to a sound and efficient system for providing retirement income.”

In a written statement from IMRF Executive Director Louis W. Kosiba, the board of trustees stated its “unequivocal opposition to compensation increases paid during the final years of employment with the purpose of increasing a participant’s pension beyond the limitations” and will “support measures designed to end such compensation increases.”

Kosiba said the fund is writing up a proposal to end pension spiking for state lawmakers to consider, perhaps as soon as the year-end veto session.

‘Pay Costs Up Front’

According to Kosiba, a portion of the IMRF proposal “would force governments to have separate line items for the extra pension costs, so they can pay those costs up front, versus payments made over time.” Kosiba compared it to “the difference between making payments with a credit card versus a debit card.”

In Illinois’ pension systems for grade school and high school teachers and university employees, any raises of more than 6 percent still count toward pensions, but the school districts and state universities that give the raises must pay the retiree’s immediate pension costs up front. That requirement was put in place several years ago after taxpayer backlash against pension spiking that was becoming commonplace in the public schools and universities.

While many state and local government pension systems are stressed, no state has a bigger unfunded pension liability than Illinois.

“Chances that the funds will run short of cash are high,” said Illinois Policy Institute Executive Vice President Kristina Rasmussen. “They’ve already got an $80 billion unfunded liability and you may recall that the state has no plan for paying its $4 billion annual contribution this year. Until a mechanism that prevents irresponsible spending while protecting pension payments is put into place, Illinois will continue the long, slow economic decline that has been underway for over 30 years.”

John W. Skorburg (jskorburg@heartland.org) is associate editor of Budget & Tax News and a lecturer in economics at the University of Illinois at Chicago.
Proposed Florida Business Tax Phase-out Draws Fire

Supporters of tax credit scholarships raise concerns

By George Clowes

Only three states—Nevada, South Dakota, and Wyoming—have no corporate income tax, but Florida governor-elect Rick Scott wants to add the Sunshine State to that select list.

Scott proposes reducing the state’s corporate income tax to zero over the next seven years. His suggestion has raised concerns among school choice advocates because credits against the tax help support the state’s privately funded scholarship program.

Since 2002 Florida has provided a dollar-for-dollar tax credit on corporate income taxes for donations to nonprofit organizations that award scholarships for private school tuition. This fall some 32,500 children enrolled in more than 1,000 private schools with the help of scholarships worth up to $4,106 each.

Because of recent changes the tax credit program no longer depends solely on the corporate income tax as a source of revenue.

Nevertheless, a September 22 newspaper article by John Kennedy of the News Service of Florida warned that Scott’s proposed changing the state’s corporate income tax, with its deductions and tax preferences, to a flat tax with no deductions. But when the Mormon Church made clear its “support of retaining a state tax deduction for charitable giving,” reform discussion quickly shifted to the idea of a flatter tax that included a charitable deduction.

“I support school choice and I strongly support these scholarships. I am committed to finding a solution that will continue to allow families more choice in where to send their child to school.”

RICK SCOTT
GOVERNOR-ELECT - FLORIDA

The program targets students who qualify for free or reduced-price lunches.

Scott’s statements in his letter reiterated a position he had already made clear in his six-page education plan—support for school choice, support for the scholarships and their expansion, and a commitment to finding a solution to the funding problem created by elimination of the business tax.

“As we phase out the corporate tax over seven years,” declares Scott in the plan, “I will work with the Legislature, business and parents to develop a more comprehensive program that will allow all of Florida’s children to have the best possible education experience that meets each child’s unique need.”

Scott argues eliminating the business income tax would have a minimal effect on state revenue while having a large positive effect on the state economy and state sales tax revenues by making Florida more competitive in the global marketplace.

Pushback Precedent

There is precedent elsewhere for pushback from nonprofits sidelin­ing a proposed tax reform and its economic benefits. In 2005 Utah’s then-governor, Jon Huntsman Jr., proposed changing the state’s income tax, with its deductions and tax preferences, to a flat tax with no deductions. But when the Mormon Church made clear its “support of retaining a state tax deduction for charitable giving,” reform discussion quickly shifted to the idea of a flatter tax that included a charitable deduction.

“A flat tax with no deductions, exemptions or credits simply does not reflect the values and priorities of Utahns,” argued Sutherland Institute President Paul Mero in a 2005 Wall Street Journal article. The Mormon Church, he continued, “rightly understands that the tax code should be used to incentivize individual and societal behaviors that help us to be our better selves and, at the same time, serve to unburden our reliance on government programs.”

It’s unlikely the business tax reform proposal would be sidelined in Florida now that Scott has been elected governor. That’s because the tax credit program no longer depends exclusively on corporate taxes as a source of funding, thanks to bipartisan support for a major expansion of the program earlier this year, spearheaded by state Rep. Will Weatherford (R-Wesley Chapel).

New Credit Sources

Credits for the program now can be taken against the corporate income tax, the insurance premium tax, the alcoholic beverage excise tax, the oil and gas severance tax, and the direct pay self-accrual sales tax on manufacturers.

The four new credit sources produce tax revenues of about $1.6 billion a year, compared to $1.8 billion from the corporate income tax.

As part of the program changes approved by the legislature, the program cap for the following year is automatically increased by 25 percent when funding and enrollment reach 90 percent of the current cap. With the current year’s program already oversubscribed, the 2011-12 program cap likely will be lifted from $140 million to $175 million.

Even if the program expanded by 25 percent every year, it would have until the 2021-22 school year before the cap reached the $1.6 billion available from the new funding sources. To put this figure into perspective, that’s just 5.8 percent of the $27.4 billion allocated for K-12 public education in Florida for the 2007-08 school year.

George Clowes (clowesga@aol.com) is a senior fellow with The Heartland Institute.
N.J. Governor Cancels Hudson River Tunnel Project

By Wendell Cox

New Jersey Gov. Chris Christie (R) sent shockwaves through the transportation industry when he cancelled the under-construction Access to the Regional Core (ARC) rail tunnel under the Hudson River from New Jersey to New York (Manhattan).

Christie accepted the ARC Executive Committee’s recommendation to “pull the plug” on the expensive project because of cost overruns.

“I cannot place upon the citizens of the State of New Jersey an open-ended letter of credit,” Christie said in announcing his decision.

The project was to have cost $8.7 billion but could have escalated to $14 billion, according to the governor’s office. New Jersey taxpayers would have had to absorb all cost overruns.

About two weeks before announcing his final decision on October 27, Christie indicated he would kill the project when he said: “Considering the unprecedented fiscal and economic climate our state is facing, it is completely unthinkable to borrow more money and leave taxpayers responsible for billions in cost overruns. The ARC project costs far more than New Jersey taxpayers can afford, and the only prudent move is to end this project.”

At the time, Christie left some wiggle room. He said he would consider “options to potentially salvage” the project based on options (not made public) offered by U.S. Transportation Secretary Ray LaHood.

Intense Reaction

Supporters of the tunnel project—from Paul Krugman of The New York Times to the Regional Plan Association—were unanimous in their condemnation of Christie’s move.

New Jersey Sen. Frank Lautenberg (D) referred to a meeting between LaHood and Christie and told reporters, “The secretary was clear with Gov. Christie: If this tunnel doesn’t get built, the three billion dollars [of federal funding] will go to other states. We can’t allow that to happen.”

Here are a few of the issues that Christie and other state officials probably considered before reaching the final decision to end the tunnel project:

1. Need Was Exaggerated.

The new rail tunnel was to serve a purported increase in commuter rail ridership to Manhattan jobs. The project’s Final Environmental Impact Statement says midtown Manhattan’s employment will grow by another 500,000 from its current 2.6 million by 2030.

This is unlikely. Manhattan’s entire employment (not just Midtown) peaked at 2.4 million in 2008. One might expect the planners could have gotten something so simple correct. Manhattan employment remains below 2001 levels and never rose by more than 35,000 in any year, even at the peak of the last boom.

The consultants also are projecting a 1.6 million population increase west of the Hudson River (New Jersey suburbs along with the New York counties of Rockland and Orange) by 2030. However, these areas are more likely to grow by only 1.1 million, based upon official state projections.

The questionable population and employment projections that reveal the “need” for the new tunnel may have been grossly overstated.

2. Exporting Jobs to New York.

Why should New Jersey pay to build more capacity so that its people can work across the state line? Only a small share of New Jersey commuters travel to Manhattan for work. Even in the New Jersey counties that border New York, only 12 percent of commuters work in Manhattan. In the other New York counties in the metropolitan area, the figure drops to 5 percent.

New Jersey depends on New Jersey far more than it does New York. New Jersey has developed successful new office complexes in Jersey City, New Brunswick, along the I-287 Belt Route, and elsewhere.

Perhaps New Jersey should seek to minimize work-trip lengths and encourage the next 500,000 jobs to be created at home in the Garden State rather than in New York.


The tunnel easily could climb in cost beyond the now-feared $14 billion. Boston’s Big Dig cost escalation continued almost to the project’s opening. (The Big Dig rerouted Interstate 93 and other major thoroughfares underground. With interest costs, it is projected to cost $22 billion. The initial estimates, adjusted for inflation, were $6 billion.)


The reduction of greenhouse gas emissions is raised as a benefit of the tunnel. But at what cost? Each of the 70,000 annual tons of greenhouse gas emissions removed would cost $16,000. The present market price for greenhouse gases is $20 per ton. New Jersey could accomplish the same objective for just $1.4 million annually.

Shot Across Bow

It might be better for New Jersey to have a $600 million tunnel to nowhere than a $14 billion, $20 billion, or $25 billion tunnel that may not really be needed.

Stopping the project could be a shot across the bow of an international vendor and consulting engineering community that has routinely low-balled costs only to increase them later, confident that no project would be canceled once started.

Wendell Cox (demographia@gmail.com) is a policy advisor to The Heartland Institute, visiting professor at the Conservatoire National des Arts et Metiers in Paris, and author of War on the Dream: How Anti-Sprawl Policy Threatens the Quality of Life. A version of this article first appeared at newgeography.com. Used with permission.

“Considering the unprecedented fiscal and economic climate our state is facing, it is completely unthinkable to borrow more money and leave taxpayers responsible for billions in cost overruns.”

CHRIS CHRISTIE
GOVERNOR - NEW JERSEY
VIC Accuses New Jersey of Financial Fraud over Pensions

By Steve Stanek

Sheila Weinberg was not surprised to learn the Securities and Exchange Commission had accused the State of New Jersey of securities fraud.

“We found New Jersey to be the worst by far” of the 50 states when it comes to accounting transparency for liabilities for pension and health insurance benefits for government workers and retirees, said Weinberg, CEO and founder of the Institute for Truth in Accounting, an independent nonprofit organization in Northbrook, Illinois.

The institute last year released a study of all 50 states’ financial reporting practices and is currently updating the work. Weinberg said the action against New Jersey could pressure other states and local governments that have been using similar tactics to disguise their finances to be more truthful.

‘Flat-Out Lying’

Weinberg said New Jersey was simply the worst of a bad bunch.

“What they have been doing in government budgets is flat-out lying,” Weinberg said. “Financial statements are so opaque. It’s scary now.

“Because governments have not been reporting things properly, spending has gotten out of hand,” she added. “Government unions are always pushing for more. But the cost of government is massively higher than what they’ve been telling us.”

Shady Pension Reporting

The SEC charges, announced in August, stemmed from New Jersey’s pension obligation reporting.

The SEC stated investors bought more than $26 billion worth of New Jersey bonds in 79 offerings between 2001 and 2007 without understanding the severity of the state’s financial condition. The agency issued a cease-and-desist order, and the state accepted the order without admitting any wrongdoing.

The SEC said the fraud began in 2001 when New Jersey raised retirement benefits for teachers and general state employees.

The state claimed to have money to pay for the higher benefits in a special “enhanced benefit plan” and a five-year plan to contribute to the pension funds. In fact, the SEC wrote in its order, “Disclosures in bond offering documents regarding the State’s five-year phase-in plan and use of the BEFs likely falsely led investors to believe that: (1) the State would be contributing to TPAF [Teachers’ Pension and Annuity Fund] and PERS [Public Employees’ Retirement System] in fiscal years 2004, 2005, and 2006; (2) the State had a plan for making its full statutory contributions; and (3) the State would begin making full statutory contributions in fiscal year 2008.”

Retroactive Revaluations

The state also misled investors in other ways, according to the SEC, including by retroactively revaluing pension fund investments to June 1999, near the height of the stock market. The revaluation covered up a $2.4 billion loss of asset value that had occurred between June 30, 1999 and April 30, 2001 and was not revealed until March 2003. No explanation for the revaluation was given.

“Because the State’s contributions to TPAF and PERS are based on the actuarial value of assets, the revaluation created the false appearance that the plans were ‘fully funded’ and allowed the State to justify not making contributions to the pension plans despite the fact that the market values of the plans’ assets were rapidly declining,” according to the SEC’s order.

The agency did not impose a financial penalty. Nor did it name the bond underwriters who vouched for the state’s financial statements.

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of FIRE Policy News, a publication of The Heartland Institute, where this article first appeared. Used with permission.

IN OTHER WORDS . . .

“The action was historic: New Jersey is the first state targeted by the SEC for securities fraud. But with pension funds crumbling everywhere, other states probably will join us in shame. But from this day forward, cross our hearts and hope to die, New Jersey has agreed to tell the truth about its grossly and dangerously undernourished pension funds.

“Really? Good luck with that. Because the state’s pension fund is—to paraphrase Yogi Berra, a New Jersey taxpayer—70 percent smoke and the other half mirrors. ...

“In the end, the SEC settlement isn’t about accounting statements; it’s about something more important: Telling the truth about the pension funds. But what is the truth? It’s time the state came clean—to the SEC and, more importantly, to taxpayers.”

— House editorial, New Jersey Star-Ledger, August 23

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What Does White House Want from $50 Billion Transportation Proposal?

By C. Kenneth Orski

Writing in a recent Innovation NewsBrief, we wondered if the intent behind the White House’s September 6 proposal to invest an extra $50 billion in transportation infrastructure was primarily a political gesture—to give the economy a short-term pre-election boost—or whether it was a belated but genuine change of heart about the need to act, and act convincingly, on a multi-year surface transportation program.

In conversations we held after the proposal was announced, we sensed that the transportation community, including senior officials of U.S. DOT, would clearly prefer the $50 billion to be part of a long-term reauthorization effort.

However, it’s not clear if the White House shares this feeling. President Barack Obama’s promise that the money would create jobs “immediately,” and his inclusion of airports and NextGen air traffic control systems—which never have been part of the surface transportation program but which are good job generators—would suggest that he meant the $50 billion to be used primarily as a short-term measure to stimulate the economy.

Perceived as Stimulus

The White House may try to seek congressional approval for the money in a stand-alone supplemental appropriation during the current congressional session. Whether Congress could be persuaded to go along is another matter. The bill would be perceived as a “stimulus” however it is portrayed, and would likely be opposed by a sizeable number of Democrats as well as Republicans. What is more, the proposed offset for the bill—eliminating existing incentives for the oil and gas industry and taxing firms on overseas profits—would almost certainly generate spirited opposition and a filibuster in the Senate.

Should the $50 billion be made an integral part of a multi-year transportation bill, the outlook becomes more promising. The matter could be taken up in a lame duck session.

Small Odds in Lame Duck Session

Still, the odds of passing a complex piece of legislation in a lame duck session are small. Instead, Congress is likely to pass another six- or eight-month program extension; the current program authority expires on December 31.

This time, however, there will be no need to vote more money since the Highway Trust Fund is projected to end FY 2010 with a healthy balance of $31.4 billion, according to the latest Congressional Budget Office estimate. Indeed, the Trust Fund is projected to remain solvent for another two years, ending Fiscal Year 2012 with an estimated balance of $13.3 billion.

What will happen in the next Congress can only be a matter of conjecture. With Republicans newly in control of the House, the pressure to reduce the budget deficit and reduce spending will increase. But with active support from the White House, a bipartisan agreement on a scaled-down program during the next session of Congress is conceivable.

Thorny Money Issues

To be sure, a bill “front-loaded” with an extra $50 billion—i.e. funded at $110.8 billion in FY 2011, which includes $60.8 billion in requested regular program funding—is out of the question. “Anyone who thinks that is a credible sum of money must be smoking something,” one congressional source, who requested anonymity, told us.

A $500 billion six-year bill ($83 billion/year) as proposed by Rep. Jim Oberstar (DFL-MN), may be equally unrealistic. But a more modest four-year bill, funded at an annual level of $60 billion/year (i.e., roughly the level requested by the administration for FY 2011) would cost a more manageable sum of $240 billion. With FY 2011-2014 tax revenues and interest expected to generate approximately $160 billion (CBO estimate), the annual shortfall would require a general revenue appropriation of only $20 billion/year.

Bipartisan Possibility

Substantively, a bill reported out of a Rep. John Mica (D-FL)-led committee would look very different from the bill that was authored by Oberstar earlier this year. But many of the reforms suggested by the White House in its September 6 announcement—such as program consolidation, performance-driven investment decisions, an infrastructure bank, even inclusion of passenger rail— are not ideologically motivated and could find their way into a bipartisan bill.

For U.S. DOT’s executive staff, the White House September 6 announcement has been undoubtedly a big morale booster and a reason to redouble their efforts to prepare a detailed legislative proposal in time for late spring or early summer submission to Congress. As Jeff Davis, editor of the Transportation Weekly has pointed out, all previous administrations have submitted full legislative proposals before Congress took up the reauthorization legislation. This time should be no exception. It would be just the first step, but an important one in putting us firmly on the road to breaking the impasse over the future of the federal surface transportation program.

C. Kenneth Orski (korski@versizon.net) is editor and publisher of Innovation NewsBriefs, where this article first appeared.
President’s Corporate Tax Hike Seen as Job-Killer

By Julie Borowski

Congress adjourned before advancing a bill to increase taxes on the profits of U.S. companies with foreign subsidiaries, but the issue could arise again during the lame duck session.

Shortly before Congress adjourned in late September, President Barack Obama said, “For years, our tax code has actually given billions of dollars in tax breaks that encourage companies to create jobs and profits in other countries. I want to change that.”

Supporters of the proposed corporate tax hike claim it would protect jobs by encouraging businesses to stay in the United States. But opponents say Obama’s plan likely would drive more businesses out of the nation and drain even more money out of the U.S. economy.

Microsoft CEO Steve Ballmer already has declared the computer software giant will move facilities and jobs out of the United States if the president’s plan is enacted.

Nearly Unique Tax

The United States is one of very few nations that taxes the global profits of domestic companies. After paying the corporate tax of their host country, U.S. companies also must pay the U.S. Treasury the difference between the U.S. corporate tax rate and the foreign rate once they bring profits back to the United States.

Obama’s plan would end the deferral of foreign income by forcing companies to pay U.S. corporate taxes immediately on any profits earned.

In 1986 Congress abolished deferral of foreign shipping income earned by U.S.-controlled firms. No other country taxed foreign shipping income. According to a 2007 study by former Joint Committee on Taxation Director Ken Keis, reported in Tax Notes, “Over the 1985-2004 period, the U.S.-flag fleet declined from 737 to 412 vessels, causing U.S.-flag shipping capacity, measured in deadweight tonnage, to drop by more than 50 percent.”

‘A Real Disaster’

The tax change led foreign competitors not subject to tax on their shipping income to buy U.S.-based shipping companies, Keis concluded. He called the loss of deferral of foreign shipping income “a real disaster for U.S. shipping.”

The current proposal would abolish deferral of foreign income for all U.S. businesses.

The United States already has one of the highest corporate tax rates in the world, at 35 percent for the federal tax. Most states impose their own corporate taxes, making the average U.S. rate nearly 40 percent. Japan is the only developed nation with a higher corporate tax, and the nation’s leaders are committed to lowering it.

Even after adjusting for credits and deductions, the effective combined U.S. federal and state tax rate on new capital investment is 35 percent, compared to the OECD average of 19.5 percent and the world average of 18 percent, according to a May 2010 report by the Cato Institute using World Bank data. The OECD is the Organisation for Economic Co-Operation and Development and includes 33 developed nations in North America, Europe, and the Middle East.

Julie Borowski (jborowski@freedomworks.org) is a staff writer at FreedomWorks.

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“Even after adjusting for credits and deductions, the effective combined U.S. federal and state tax rate on new capital investment is 35 percent, compared to the OECD average of 19.5 percent and the world average of 18 percent ...”
By Dan Pilla

The mindset of many current Washington lawmakers and White House officials is that when you are allowed a tax deduction, that really means the government is spending its money to fund the deduction, instead of allowing you to keep more of your money by claiming the deduction. The thinking reflected in President Barack Obama’s budget and his economic team is best evidenced by the recent statement of Joshua Odintz, former legislative counsel in the Treasury Department’s Office of Tax Policy. He is now working for Obama’s National Commission on Fiscal Responsibility and Reform as the commission’s chief tax counsel. Obama created the commission to explore ways to “balance the budget.”

Odintz recently stated at a New York Bar Association conference that “federal tax expenditures” must be carefully scrutinized because they “account for as much as one-third of all federal spending.”

To understand just how astonishing this remark is, let’s first understand what a “tax expenditure” is.

**Deductions as ‘Expenditures’**

I recently discussed this issue in an article predicting the Obama administration will not provide taxpayer relief by eliminating the alternative minimum tax, which was created 40 years ago to apply to a handful of wealthy individuals but now imposes higher taxes on millions of citizens. In that article, I explained the idea of a tax expenditure as follows:

“Tax expenditure” is a phrase tax theologians use to describe a tax deduction. You see, in the mind of the typical tax theologian, the concept of a tax deduction is not a mechanism that allows you to keep more of your own money. On the contrary. A “tax expenditure” is what happens when the government spends its money by allowing you to take advantage of a deduction. Think of it this way (since that’s how tax theologians think of it): All money is “government money.” When the government allows you to keep some of its money by reducing your tax hit through a deduction, the government has actually incurred an “expense.” This expense is known as a “tax expenditure.” The more “tax expenditures” there are in the law, the less money the government gets. That’s why politicians often make the statement, “we can’t afford X tax cut.” It’s as if they are spending their own money to do you a favor.

**A Step Farther**

Odintz takes the idea one step farther by suggesting “tax expenditures” amount to direct federal spending in the form of line items in the annual budget. Line item budget expenditures include defense, interest on the debt, the judiciary, Social Security, and the like. There is no budget item for “mortgage interest deductions” or “charitable contributions.”

Odintz’s statement illustrates just how dangerous is the thinking of those in control in Washington today. It is no exaggeration to say they believe all the money in the economy is theirs—period. Allowing you to keep any of the amount you earn is purely a matter of grace on their part.

Understand what Odintz is saying: He believes eliminating your tax deductions is a way of “cutting” federal spending. Thus for the current band of social planners to entertain the idea of cutting spending, they really mean to eliminate deductions.

By the way, that has the same effect as raising taxes.

Even many so-called conservative Republicans entrenched in Washington believe this nonsense. For example, former Wyoming Republican Senator Alan Simpson, currently serving as co-chairman of Obama’s debt reduction commission, addressed the issue of “tax expenditures” in a recent appearance. He agreed “tax expenditures should be scrutinized” by the commission and Congress and said it’s “unfair to call the rolling back of tax expenditures tax hikes.” Why? He did not say.

**Health Care in Crosshairs**

What tax deductions might be on the chopping block? The “expensive” ones, of course. After all, if you’re going to be effective at cutting “spending,” you must cut the largest expenditures, right?

The tax deduction for employers’ contributions to employee health care plans is a big one. This “costs” the federal government about $144 billion each year. By Odintz’s reasoning this is not $144 billion of private money that employers are able to spend on their employees. No. This is $144 billion of unaffordable federal spending that must be cut from the budget.

If the employer deduction for contributions to employee health insurance plans is eliminated, what do you suppose will happen to employer-sponsored health insurance plans?

**Other Deductions in Danger**

Some of the other major deductions—I mean “expenditures”—are:

- $79 billion for the deduction on home mortgage interest;
- $57 billion for accelerated depreciation for businesses;
- $53 billion for the lower tax rate on capital gains; and
- $49 billion for the earned income tax credit.

And don’t forget the deductions for charitable contributions, state and local taxes, employee business expenses, etc. After all, these “costs” add up fast.

If Odintz and the other like-minded thinkers in Washington have their way, Obama’s commission will recommend balancing the budget by simply taking more of our money. The way they see things, it’s really not our money anyway. It already belongs to the government.

Dan Pilla (pillatax@aol.com) is the bestselling author of 11 books on taxes and dealing with the IRS, including The IRS Problem Solver and How to Get Tax Amnesty. He runs TaxHelpOnline.com and publishes the Pilla Talks Taxes electronic newsletter.
The Hidden Truth About the Bush Tax Increases—That’s Right, Increases

By Bill Frezza

The debate rages over whether our country can afford to extend the Bush tax cuts for the rich. Progressives argue that the ballooning federal debt is a legacy of these tax cuts.

There is one unreported flaw in this argument. As data from the IRS show, George Bush did not cut income taxes. He increased them. In fact, Bush increased income taxes not only for the rich but for at least half of all tax filers. Only the poor paid less income tax under George Bush than under Bill Clinton.

Go to the IRS Web site and add up the numbers for yourself. During the eight years of the Clinton Administration the Federal government collected $5.66 trillion in individual income taxes. During the eight years of the Bush Administration the Federal government collected approximately $7.45 trillion in individual income taxes.

The rich—that is, the top 1 percent of taxpayers—not only forked over a trillion dollars more to Uncle Sam under Bush than under Clinton, their share of the income tax burden increased from 33 percent to 38 percent.

Blended vs. Marginal Rates

How can this be?

The explanation for this apparent paradox is simple. The problem is that no one wants to hear it. Not the pundits. Not the press. Certainly not the leaders of the Democratic Party. Oddly enough, even the Republicans are oblivious.

George Bush cut the marginal tax rates paid by the rich, and everyone else for that matter. These are the tax cuts that are about to expire. The marginal tax rate is the rate you pay on the last dollars you earn. The blended tax rate is the effective rate you end up paying across all of your income. The total amount of tax you pay equals your blended tax rate times your taxable income. And it’s the total amount of tax collected that finances the government.

As hard as this is for some people to accept, the rich change their behavior when their marginal tax rates are reduced. The working rich work harder and longer. They expand their businesses, creating jobs. The idle rich shift investments from lower-yield tax-free government bonds into higher-return taxable investments, the kind of investments that finance companies that create jobs. Exactly the opposite happens when marginal tax rates go up, as they are scheduled to do unless Congress acts.

A Bigger Pie

The rich do not get richer because they are stupid. Being rational people, they are usually happy to pay more taxes if at the same time they also take home more after-tax dollars. And that’s exactly what they did under George Bush. The math works because the pie gets bigger.

So if social justice is your goal, go ahead and raise marginal tax rates for the rich. Making the rich poorer will certainly reduce inequality. Why should you care if the total amount of taxes paid by the rich goes down, economic growth goes down, fewer jobs get created, and the government falls deeper into debt? In fact, this is a perfect way to create a permanent crisis that never goes to waste. As a full-throated Progressive you can run for Congress claiming that you are looking out for the little guy because you are sticking it to the rich.

Meanwhile, when you asleep-at-the-switch Republicans finally learn how to tell the difference between nominal tax rates and actual tax collections, please ‘fess up to the real source of the ballooning national debt. Your guy George Bush was the biggest spender in American history, at least until his incompetent presidency delivered Barack Obama to the Oval Office. Bush spent $5 trillion more of our money than Bill Clinton. Had Bush frozen the federal budget when he came into office he would have left Obama a surplus.

One of the saddest things about our broken two-party system is that every time Republicans gain power they spend like Democrats. Understand now why the Tea Party wants nothing to do with your incumbents?

Do these facts surprise you? Is this the first time you’ve heard that George Bush was the biggest tax collector in American history? Were you aware that Bush was the biggest tax collector in American history? Were you aware that the rich paid a higher blended tax rate under Bush than under Clinton?

Since reporters seem more willing to parrot talking points than dig up facts, spend a little time on www.irs.gov and see for yourself. You can also ponder what this selective national blindness says about our dysfunctional politico-pundit complex and its handmaidens in the media.

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Business Income to Shoulder Tax Increase

Continued from page 1

lion in taxes on business income.

“The fact that ‘only’ 2 or 3 percent of taxpayers with business income would face higher taxes is meaningless to the debate,” said Tax Foundation President Scott Hodge, who wrote the paper. “What matters most is not the number of taxpayers impacted, but the amount of business income—and, therefore, business activity—impacted.”

Majority Have Business Income

More than 74 percent of tax filers in the highest tax bracket report some business income, whereas just 20 percent of those in the lowest bracket do so.

Of the roughly $864 billion in taxable business income reported on individual income tax returns in 2008, nearly 68 percent was claimed by taxpayers earning more than $200,000, and 35 percent was claimed by taxpayers earning more than $1 million.

“This means that the combined business income of every taxpayer earning up to $200,000 was still less than the total business income of taxpayers earning more than $1 million,” Hodge said.

More than Corporate Income Tax

More business income is taxed under the individual income tax code as “pass-through” businesses (non-corporate firms such as sole proprietors, S-corporations, limited liability corporations, and partnerships) than is taxed under the traditional corporate income tax code.

The number of pass-through businesses nearly tripled between 1980 and 2007, from roughly 10.9 million to more than 30 million. The number of traditional C-corporations declined steadily from 2.2 million in 1980 to 1.9 million in 2007.

In the same time period, net receipts for C-corporations roughly doubled, from $752 billion to $1.4 trillion. Pass-through entities saw net income increase six-fold, from $315 billion to more than $1.8 trillion.

Natasha Altamirano (naltamirano@taxfoundation.org) is manager of media relations at the Tax Foundation.

“Another Obama Tax Hike on the Non-Rich

“For everybody who earns at least $8,375, there is a certain amount of your income that is now taxed at 10 percent that will be taxed at 15 percent in 2011 if the 10 percent tax bracket disappears. ... If on that first $8,375 you were paying $837 or so in taxes, that’s going to go up by another more than $400.”

— Mike O’Toole of the American Payroll Association in a recent Budget & Tax News podcast discussing the possible expiration of the 2001 and 2003 tax cuts, which included creation of the 10 percent tax bracket: http://www.budgetandtax-news.org/audio.html
Private Police Services Could Benefit Communities, Professors Say

By Steve Stanek

Communities could save money and enjoy better police response by handing some police duties to private entities, researchers at Temple University in Philadelphia have found.

"Sworn officers are very expensive, and it is a waste to use them" in many instances, said Prof. Simon Hakim, an economist and director of Temple University's Center for Competitive Government.

Hakim cited response to burglar alarms as an example of a waste of police resources. In many communities, police spend at least 10 percent of their time responding to false alarms.

"Typically, 94 to 99 percent of burglar alarm activations are false alarms," Hakim said. "If police respond to burglar alarms, they are providing a private service at public expense."

'Verified Response' Success

Ten years ago Salt Lake City began using a program called Verified Response, in which private security guards respond to burglar alarms. If they see evidence of a break-in or other problem that needs police assistance, they call police.

The city had been charging $100 for responses to false alarms before instituting the Verified Response program. And this was with police giving alarms a low priority.

"Verified Response has been a win-win for our citizens and our department. Due to the low priority of alarm signals, private guard response time to alarm activations has been much quicker than police response," said Shanna Werner, alarm administrator for the Salt Lake City Police Department.

"Police have been able to reduce the response time to high-priority emergency calls, including panic, robbery, and duress alarms, by nearly one minute," because they spend less time responding to false alarms, Werner said. "Most citizens will pay as little as an additional $5 per month on their monitoring account for guard response, rather than the former $100 false alarm fines. Most importantly, our officers are able to redirect time spent on answering false alarm signals to other public safety concerns."

Private Service, Public Cost

Lee Jones, owner of Support Services Group in San Clemente, California, has been providing verified response consulting services to Salt Lake City and other communities, including Fremont and Fontana, California.

Jones says when the private alarm business originated, the service included private security guard response. Costs started to climb, however, and alarm companies started sending their alarms straight to local police departments to reduce or eliminate the need for private guard response.

Now, with municipal resources under financial strain, municipalities are pushing back, Jones said.

"It is really considered to be gifting of public funds by dedicating public resources in support of private interest groups," Jones said. "Many PDs are taking the position that this really is a private security matter and remains one until a 911 emergency is known. They’re starting to say don’t call us until you know we have an emergency."

More Sophisticated Crimes

Hakim said there are other important reasons to involve private firms instead of police, including changes in the kinds of crimes that are being committed and in the technologies that are being used.

"Police don’t effectively deal with economic crime, which is a rapidly growing area," Hakim said. "They usually don’t have the knowledge to deal with IT [information technology] and accounting and legal issues. There are also lots of counterfeit goods, from China mostly, and police don’t want to deal with that. Lots of accounting firms, IT companies, and other firms have special departments that deal with these issues."

A private investigation company can build a case, meet with the district attorney, present evidence, and then have police make arrests. Private companies like these, for a relatively small amount of money, get problems solved.

Economics Prof. Erwin Blackstone of Temple University, who works with Hakim, said private security firms have incentives that often make them more effective than police.

"Private security is basically interested in satisfying clients: preventing crimes," Blackstone added. "It’s not clear who's victimized by prostitution, minor drug offenses, gambling. These are more morals issues than crime issues, but they’re easier for police to deal with."

Resistant to Change

Hakim points to another problem with police departments. "They are monopolies, so they do not adapt well to changes [in the kinds of crimes that are being committed] or adjust manpower needs."

He said crimes against property are down by at least one-quarter since the early 1990s, while robbery and murder rates are down by half. Yet most police departments have added officers.

Jones said politics is a big obstacle to police departments making staff changes or adopting a program as simple as Verified Response.

Instead, many cities are following the lead of Los Angeles, which has simply downgraded the priority of burglar alarm response. "In Los Angeles an alarm is equivalent to a barking dog complaint," Jones said. "The average response time in LA is over an hour and costs you $150 if it’s a false alarm."

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INTERNET INFO

Center for Competitive Government research: http://www.sbm.temple.edu/ccg/
How Federal Reserve Policy Slows Spending

By Robert Genetski

Since 2007 the Federal Reserve has nearly tripled the size of its portfolio of securities. Fed officials say their action has produced a highly accommodative policy.

However, recent signs point to a dramatic slowdown in spending. This has raised concerns over future monetary options. If monetary policy is already highly accommodative, what further action can the Fed take?

Milton Friedman’s main contribution to monetary analysis was to highlight the relationship between the creation of money and subsequent changes in spending. If the near-tripling in the size of the Fed’s portfolio since 2007 signals a highly accommodative policy, then the subsequent weakness in current dollar spending means Friedman’s main contribution to monetary policy has to be rejected on empirical grounds.

Before dismissing Friedman’s analysis, it’s important to consider another explanation for the recent slowdown in spending. The alternative explanation is that monetary policy has not been nearly as expansive as most people seem to think.

This explanation suggests that neither interest rates nor the size of the Fed’s portfolio is necessarily a valid policy indicator. Instead, it suggests that monetary stimulus should be measured by the amount of bank reserves that are used to support bank deposits.

To arrive at such a measure, it’s important to remove deposits that banks choose to keep with the Federal Reserve, namely excess reserves. While these deposits can potentially be used to support loans and investments, as long as they are kept at the Fed they are not able to do so.

When reserves do not support loans and investments in the banking system, they are not able to support bank deposits or add to the money supply. When money is measured correctly, it turns out that Friedman’s analysis of monetary policy is every bit as relevant today as it has been at any time in history.

The Federal Reserve Bank of St. Louis produces data on bank reserves adjusted for reserve requirements. Subtracting excess reserves from this measure shows that in the six months ending in August 2008 the amount of bank reserves supporting bank deposits had fallen to $93 billion. This was down from $95 billion in early 2005.

The Fed’s shift from aggressively supporting bank reserves prior to 2005 to actually reducing those reserves represents the most dramatic shift in monetary policy since the early 1930s. The collapse in spending that followed this shift (now referred to as the Great Recession) is fully consistent with Friedman’s monetary analysis.

In the six months ending in April 2009, the same monetary measure totaled $106 billion, an increase of 13 percent. Within the six- to nine-month lag that Friedman’s analysis allows for, the pace of spending improved and the economic recovery began.

By last December, the comparable figure was essentially unchanged at $107 billion. In August of this year, the six-month average was still $106 billion.

The lack of growth in this measure of money is fully consistent with both the weak pace of spending as well as the recent weakness in stock prices.

There is widespread agreement among monetary economists that the Federal Reserve has complete control of the amount of bank reserves. By ignoring this crucial monetary measure, Fed policymakers produced the most dramatic period of monetary restraint since the early 1930s. That restraint was followed by the most dramatic slowdown in spending since the 1930s.

Recently, Fed members have again chosen to ignore the behavior of bank reserves. The result has been a lack of growth in this key monetary measure.

As in the past, this lack of growth has led to a sluggish pace of spending.

To restore a faster pace of spending, the Fed should monitor the supply of bank reserves used to support bank deposits. Moderate growth in the amount of bank reserves available for loans and investments would work its way through financial markets and into the economy. Allowing for the typical lag, the pace of spending would then respond to the increase in money much as Friedman’s analysis has shown it has done throughout history.

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In Fiscally Stressed States, Public Prefers Spending Cuts
Residents in surveyed states distrust their governments

By Pew Center on the States and Public Policy Institute of California

Residents of five diverse, fiscally stressed states have similar priorities for state government, but their preferences clash with budget realities and show distrust of their governments, says a new report by the Pew Center on the States and the Public Policy Institute of California.

The report is based on surveys of public attitudes in Arizona, California, Florida, Illinois, and New York. Residents were asked about the fiscal crisis facing states and what they think their elected officials should do about it.

Together, the five states surveyed constitute almost a third of the U.S. population and economic output. Collectively, they accounted for 45 percent of states’ total projected budget gaps for fiscal year 2011.

The October report, “Facing Facts: Public Attitudes and Fiscal Realities in Five Stressed States,” is the first in-depth, multistate read on how residents view their state’s budget problems during the nationwide economic downturn and what they think lawmakers should or should not do about them.

The report highlights five key findings across the five states:

Public sentiment for reducing waste and making state government more efficient and effective is more widespread in the five states surveyed than are complaints about the size of government. Although at least four in 10 in Arizona, California, Florida, Illinois, and New York say state government is too big, even more respondents express a sense that state government can be run better, with less waste and more efficiency.

Majorities in four of the five states say “a lot” is wasted. About two out of three residents say their state government could spend less and still provide the same level of services. Most of those respondents think there is room for reductions of 10 percent to 20 percent or more.

2. Protect the Essentials.
By a range of 63 percent to 71 percent, majorities in all five states say they would be willing to pay higher taxes to keep K-12 public schools at current funding levels. Fifty-two percent to 57 percent say they would pay higher taxes to preserve funding for health and human services.

These findings make clear what respondents want government to prioritize—but they also complicate the task for policymakers. The size of budget shortfalls in all five states will make it difficult to fully protect K-12 education and Medicaid, the biggest recipients of state dollars. Doing so would compel deeper cuts everywhere else, and even that might not be enough.

3. Tax the Other Guy.
Residents would prefer to charge others—particularly the wealthy, corporations, and smokers, drinkers, and gamblers. These revenue streams likely would not be sufficient to address their state’s budget shortfalls.

Residents of the five states are tired of lawmakers passing the costs down to future generations. Overwhelmingly, they would rather keep cutting services and raising taxes, if necessary, than have short-term deficits papered over with borrowing.

Given three choices of how to balance state budgets, more than two-thirds of residents in all five states pick spending cuts first. They prefer tax increases second, and then borrowing.

Across the five states, only 5 percent to 11 percent of respondents choose borrowing as the top option for balancing their state’s budgets.

5. Lack of Trust—and Desire for Reform.
Across all five states, two-thirds or more of respondents report they either never trust state government to do what is right or trust it only some of the time. Residents overwhelmingly believe their state should pursue major reforms to their budget processes, and pursue them now.

“There is a disconnect between what the public wants and what is needed to resolve the states’ fiscal crisis,” said Susan Urahn, managing director of the Pew Center on the States. “Policymakers will have to make unpopular budget decisions to help their states fully recover.”

“After years of economic and fiscal challenges, residents of these stressed states are frustrated and distrustful. New leaders will have much ground to make up post-November,” said Mark Baldassare, president and CEO of the Public Policy Institute of California. “They will need to begin to build public confidence in the effectiveness and efficiency of state government.”

Some States Harder Hit
At least 1,000 residents were interviewed in June 2010 in each of the five states to provide statistically sound findings within each locale and allow for rare multistate comparisons.

The five states were chosen because each has faced unusually severe fiscal stress in the economic downturn, including some of the highest unemployment rates, biggest home foreclosure rates, or largest state budget gaps in the country. They are diverse geographically and politically.

Some other states are experiencing economic or budget problems of similar magnitude, and they are even greater in some cases, so this selection in no way implies these are the five hardest-hit states.

— Prepared by the Pew Center on the States

“The report is based on surveys of public attitudes in Arizona, California, Florida, Illinois, and New York. Residents were asked about the fiscal crisis facing states and what they think their elected officials should do about it.”

Texas Jobs Fund Falls Well Short of Promises

By Andrew Wheat

Two-thirds of companies that have received $368 million in Texas state funds failed to deliver on their job-creation promises by the end of 2009, a study by the nonpartisan Texans for Public Justice in Austin found. During last year’s recession, the report says, the default rate by state-funded companies jumped from 42 percent to 66 percent.

“Phantom Jobs: The Texas Enterprise Fund’s Broken Promises” analyzed the 2009 compliance reports filed by 50 Texas Enterprise Fund recipients that faced job-target deadlines by the end of last year. Researchers compared the recipients’ performance reports to what they pledged in their original Enterprise Fund contracts. Thirty-three of the 50 state-funded enterprises failed to deliver contractual job promises.

The office of Gov. Rick Perry (R), which runs the program, terminated outright six hopeless projects (12 percent). Thirteen projects (26 percent) still operating under their original contracts reported they did not produce the jobs they had promised. Finally, the Governor’s Office amended 14 Enterprise Fund contracts (28 percent) to extend job-promise deadlines or slash job promises.

Exaggerated Jobs Claims

The 14 amended projects originally promised to deliver 9,793 new Texas jobs by 2009. But subsequent amendments canceled 39 percent of those job promises, the study found. Although Perry claimed in January the Enterprise Fund had created 54,600 jobs, the report found the most generous reading of 2009 compliance reports offers evidence of at most 30,691 Enterprise Fund jobs.

Development initiatives supporter Edward Faser, who heads the Urban and Regional Planning program at the University of Illinois at Urbana-Champaign, says giving discretionary incentives to specific companies is superior to incentives buried in the tax code because they offer more potential for transparency and accountability.

But Faser says politicians and administrators must be up-front about what targets are met or not met. He previously helped administer North Carolina’s economic development programs.

“This doesn’t sound like a best-practices program where implementation is concerned,” Faser says.

The governor’s office did not respond to requests to comment for this story. After the report was published in September, a spokesperson for the governor responded to its findings by telling the Dallas Morning News, “Texas cannot control national economic trends or individual business pressures, but [Enterprise Fund] contracts demand job creation in return for funding.”

State Sen. Mike Jackson (R-LaPorte) and state Rep. Mark Strama (D-Austin), who head committees overseeing the Texas Enterprise Fund, did not respond to requests for comment.

‘Phantom’ Jobs Reporting

“The title of our ‘Phantom Jobs’ report was partly inspired by political equations of job promises with actual paychecks,” says Texans for Public Justice Director Craig McDonald. “Many kinds of phantom jobs haunt this program.”

Vought Aircraft, for example, reported it produced just 864 of the 3,000 new jobs it promised. Using a compensation multiplier inserted into a contract amendment that it signed last year, Vought pumped up those 864 real jobs into credit for creating 2,056 jobs. Vought’s phantom jobs outnumber the actual new people that it hired.

Alloy Polymers bought a chemical plant outside Houston in 2007 and treated the 32 workers already employed there as if they were “new” Texas workers. Conversely, Austin-based Sematech continued to count jobs at a chip fabrication plant after it sold that factory in 2007.

The Enterprise Fund awarded $75 million for two research facilities that claim to have produced a total of 7,508 jobs. Just don’t look for all those workers at the state-funded research centers. A Texas A&M University project claims credit for every new job in the state that falls into 24 industry categories known as the “Governor’s Biotech Cluster.” A state-sponsored biomedical center affiliated with MD Anderson Cancer Center claims credit for every new job at MD Anderson, despite the fact that its payroll began growing long before the creation of the Enterprise Fund.

Growing Resistance

Although Perry portrays the jobs program as a success, legislative resistance is growing. Even with Perry’s party controlling both legislative chambers, lawmakers spurned the governor’s request for $261 million in new Enterprise Fund funding last year. Texas faces an estimated two-year budget gap ranging between $10 billion and $20 billion. Perry recently proposed a $20 million cut in Enterprise Fund appropriations.

“Many of these incentive programs are viewed as political slush funds,” says Tommy Cafcas of Washington-based Good Jobs First. “Northrop Grumman contributed to Virginia Governor Bob McDonnell’s inaugural committee, for example, before landing $3 million from that state’s Governor’s Opportunity Fund. With so much mutual back-scratching, states are slow to recover clawbacks from non-performing grant recipients. While subsidies can combat uneven development, they should be used sparingly, transparently and with complete accountability to taxpayers.”

Andrew Wheat (trigo@tpj.org) is research director for Texans for Public Justice.

AMT Reform Urgently Needed

“What started out as a tax on 500 people ends up as a tax on four million people, and the Congressional Research Service earlier this summer ... issued a report along with the National Taxpayer Advocate saying if something isn’t done about the Alternative Minimum Tax system, the way it’s structured today, approximately 27 million people will be affected by the AMT in 2010.”


INTERNET INFO

San Francisco Moves to ‘Smart’ Parking Meters, Congestion Pricing

By Alyssa Carducci

San Francisco officials hope to ease parking congestion and raise revenue by installing 5,000 “smart” parking meters with the ability to accept payments from debit cards, credit cards, parking cards, and coins. The meters also can monitor parking space availability so a person can check ahead for free spaces.

And starting next year, prices will fluctuate during times of heavier parking demand to reflect the number of parking spaces available, under a concept called congestion pricing. Prices will range between two dollars and six dollars an hour when demand is high.

Reducing Traffic Density

Samuel Staley, director of urban growth and land use policy for the Reason Foundation in Los Angeles, calls congestion pricing for parking “innovative.”

“It actually makes sense in San Francisco because, given the traffic densities in the city, there’s a real question about how you manage traffic,” Staley said. He predicts residents will experience less traffic congestion with variable parking prices.

“Residents will benefit because there won’t be as many cars just clogging the streets,” said Staley.

Staley said he views reducing the number of cars on the streets as only a “happy by-product” of an efficient parking system, not the reason for it. “I think the goal should be using pricing to optimize the use of the parking,” he said.

Trial Results Encouraging

Paul Rose, media relations manager for San Francisco’s Municipal Transportation Agency, said the city conducted a trial program before committing to the smart parking meters. Community response indicated citizens and business owners “preferred having a smart meter because it makes it easier to park, and they liked the idea of understanding where available parking was, because they feel that more people would be able to travel into the city and know that they could find parking,” he said.

Staley pointed out officials hope the congestion pricing will induce more use of public transit, but he said he doubts that will happen. He also said he thinks the new system could reduce business activity.

“I think most of those trips on the margin—those incremental trips that are going to be stopped because of higher prices for parking—are not going to be made at all. So I think there is a very real concern that needs to be addressed for businesses,” Staley said.

“I think a lot of people don’t recognize the degree to which businesses, even in San Francisco, rely on people from outside the neighborhood to patronize their shops,” Staley said.

The federally funded program to replace old meters with smart meters has been allotted $24 million. Meters are scheduled to be installed in the following areas: Hayes Valley, Civic Center, the Financial District, SOMA, the Mission, Fisherman’s Wharf, the Marina, and the Fillmore District.

Alyssa Carducci (adc.republican@yahoo.com) writes from Florida.
Health Care Law Requires Expansion of IRS Role

By Thomas Cheplick

A new report issued by the Internal Revenue Service’s National Taxpayer Advocate says President Barack Obama’s health care law places the IRS enforcement responsibilities of the agency is ill-equipped to handle.

Nina Olson, whose role makes her the only IRS employee authorized to present legislative proposals directly to Congress, also found the new legislation places extreme burdens on America’s already-struggling businesses.

The IRS’s charter needs to be revised “to explicitly acknowledge the agency’s dual role as part tax collector and part benefits administrator,” Olson’s report concluded.

Not Exactly News to Some
According to tax attorney Dan Pilla, a taxpayers’ rights advocate and head of TaxHelpOnline.com, the IRS already has been functioning as a benefits administrator.

“I do not disagree with Mrs. Olson. The reality, though, is that the IRS has been a benefits administrator for years, and one can argue for decades, through the Earned Income Tax Credit, which is a welfare benefit administered by the IRS,” Pilla said. “The Earned Income Tax Credit is the quintessential welfare program.”

Pilla says in addition to the legitimate expenses, the fraud associated with the Earned Income Tax Credit is likely to multiply as the IRS begins administering the requirements of the new health regime.

“One of the biggest problems that revolve around the Earned Income Tax Credit is the fraud—fraud is simply rife throughout the system,” Pilla said. “If the fraud surrounding the Earned Income Tax Credit is any guide, it is going to be an absolute disaster with Obamacare.”

Big Expansion of Government

Diana Furchtgott-Roth, director of employment policy studies at the Hudson Institute in Washington, DC, says expanding the IRS and other government agencies was part of the reason Obama pushed so hard for his health care overhaul.

“The IRS functions as a benefits administrator to some extent with the Earned Income Tax Credit, but this new role would involve far more people. This is part of President Obama’s plan to [increase the number of] government employees because it is the only unionized sector that is expanding—private sector union workers are declining,” Furchtgott-Roth said.

Furchtgott-Roth notes transforming the IRS into a full-fledged benefits administrator will require a dramatic increase in staff. She maintains the growth will be spread throughout the government.

“It doesn’t actually matter where these people are in the government—the IRS, the Department of Health and Human Services, etc. It’s immaterial. The point is that government will have to grow to give out these benefits,” Furchtgott-Roth said.

In the long term, Pilla sees no end to the use of the IRS as an enforcer of social policy.

“When you listen to an IRS commissioner speak, they talk about the burden of administering social programs being put on the shoulders of IRS,” Pilla said. “They are not just tax collectors anymore.”

Thomas Cheplick (thomascheplick@yahoo.com) writes from Cambridge, Massachusetts.

Gov’t Boost to Small Business Could Do More Harm than Good

By Daniel Rothschild

Calling small business “the anchors of our Main Streets” and declaring they create most of the nation’s jobs, President Barack Obama in September signed into law a measure creating a $30 billion fund for small business lending.

Republican lawmakers, who had held up the bill for months, also heaped praise on small businesses, with House Republican Whip Eric Cantor (R-VA) praising small businesses as “the engine of job creation.”

‘Politically Popular, Bad Economics’

One thing everyone seems to agree on is that small businesses are the key to creating jobs, rallying the economy, and moving the nation out of the Great Recession.

But economist Veronique de Rugy of the Mercatus Center at George Mason University argues in a new policy brief that this is a misguided assumption based on a misunderstanding of the underlying data.

“Politicians’ fetishization of small business makes no sense when you look at the data,” de Rugy said in describing the conclusions of her recent paper. “Privileging small businesses over large business may be politically popular, but it’s bad economics.”

According to de Rugy’s analysis, large multinational corporations created jobs more rapidly than many smaller firms in the 1990s, a trend she suggests will continue.

“New jobs are created by both large and small businesses alike,” de Rugy says. “Firms with more than 500 workers account for about half of America’s total employment. There’s no empirical reason to believe that this won’t continue to be the case.”

Government Hurting Business

The Small Business Administration defines small businesses as firms with fewer than 500 employees, which de Rugy argues encompasses a wider group of firms than what most Americans would typically consider small. Whereas the term “small business” typically conjures up images of mom-and-pop stores, in reality relatively few small businesses fit this image.

Moreover, de Rugy argues, current policies are likely to do more to retard small business growth than promote it.

“Businesses aren’t investing and aren’t hiring because of uncertainty about regulation and taxation,” de Rugy says. “There is almost $2 trillion of capital sitting on the sidelines today. Until there’s more certainty about what Washington is going to do on a host of issues ranging from taxes to health care, businesses will be loath to invest and hire.”

Daniel Rothschild (drothsch@gmu.edu) is managing director of the Mercatus Center’s State and Local Policy Project at George Mason University.

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VERONIQUE DE RUGY, ECONOMIST
MERCATUS CENTER, GEORGE MASON UNIVERSITY

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In 1973, a small group of conservative activists met in Washington to discuss the future of the conservative movement. This meeting, convened by the American Conservative Union, resolved that an annual event was needed to rally conservatives, share strategies and promulgate and crystallize the best of the conservative thought in America. This meeting was thus the birth of the Conservative Political Action Conference.

In 1974, then Governor Ronald Reagan was the speaker at the Presidential Banquet. President Reagan’s 1974 speech set a strong, uncompromisingly pro-freedom agenda for conservatives, building upon the foundation established by Senator Barry Goldwater’s presidential campaign a decade earlier.

This speech and this CPAC were to become the catalysts for building a grassroots movement which has now, after 38 years, culminated in conservatism emerging as the dominant American political philosophy.

Hotel Information
The 38th Annual CPAC is being held from February 10th - 12th at the Marriott Wardman Park located at 2660 Woodley Park Road, NW, Washington, DC. To make reservations, call the Marriott Wardman Park at (800) 228-9290. Please be sure to mention CPAC to receive the discounted rate of $249/per night. Special student rate of $229/per night is also available. Student ID required at time of check-in.

Alternate Hotel:
Omni Shoreham Hotel, 2500 Calvert Street, NW, Washington, DC. Call (800) 843-6664 to make reservations. No additional discounted rate is available at this hotel.