Illinois Democrats Pass Last-Minute $7 Bil. Tax Hike

By John W. Skorburg and Steve Stanek

Illinois Democrats approved a 67 percent personal income tax increase and a 46 percent corporate tax increase in the dead of night on the last day of the state’s lame-duck legislative session, shortly before new lawmakers would have been seated to block the increases.

State budget officials estimate the tax hikes will take another $7 billion annually from Illinois families and businesses.

The tax hikes passed at nearly 2 a.m. with the bare minimum number of votes needed for passage.

Illinois Gov. Pat Quinn addresses a press conference the day after the state legislature passed a tax increase.

Caps Highlight Christie’s NJ Reforms

By Roman Hardgrave

After a year in office, New Jersey Gov. Chris Christie has persuaded lawmakers to pass several bold reforms to slow government spending and ease the state’s tax burden. But the work of turning around a state with some of the nation’s heaviest tax burdens and worst budget problems is far from complete.

Christie, a Republican, inherited a state in which property owners were paying the highest property taxes in the nation and residents were leaving by the thousands. In the decade before Christie took office, property taxes grew 70 percent, driven by a 69 percent increase in local government spending. More residents left New Jersey than left all
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Washington State Lawmakers Cut $600 Million in One-Day Session

By Amber Gunn

In a one-day special legislative session, Washington State legislators approved nearly $600 million in budget cuts to shrink a $1.1 billion deficit.

There was bipartisan agreement among the state’s budget leaders prior to the session about what budget changes would be made. Some of the cuts included nearly $50 million from the Department of Corrections, $50 million from K-12 education, $28 million from the state’s Basic Health insurance plan for the poor, and $51 million from higher education.

Normally these types of cuts would have been met by fierce resistance from Democratic lawmakers. However, Washington’s midyear deficit as a percentage of its total budget was 7.1 percent, making it the third-highest in the nation, according to The Wall Street Journal.

Lawmakers have until June 30 to close the state’s budget in the black, which lent a sense of urgency to the December special session and quieted what normally would have resulted in angry clashes.

One-Time Funds, Transfers

Cuts weren’t the only budget-balancing measure employed during the special session. Lawmakers diverted $208 million in onetime federal dollars that were supposed to be dedicated to education. In addition, they transferred $51 million from dedicated accounts to the state’s general fund and passed a tax amnesty program for delinquent taxpayers, which lawmakers hope will bring in $44 million in additional tax revenue.

Budget watchdogs say these moves raise red flags regarding the state’s already-precarious budget situation.

“The budget reductions taken will, at best, only marginally begin to help the state’s fiscal situation,” said state Rep. Glenn Anderson (R-Fall City) in a statement. “This is a very poor start considering the even larger budget deficits the state will be facing in January.”

Critics don’t buy it.

‘Only Marginal Help’

“The budget reductions taken will, at best, only marginally begin to help the state’s fiscal situation,” said state Rep. Glenn Anderson (R-Fall City) in a statement. “This is a very poor start considering the even larger budget deficits the state will be facing in January.”

The week after the special legislative session, Gregoire released her proposed supplemental budget, which uses an accounting trick to shift part of the state’s 2011 apportionment payment to school districts from the last business day of June to the first business day of July. Doing so results in $253 million in savings for the 2009-11 budget, and $253 million in increased costs for the 2011-13 budget.

“The incoming budget problem is big enough without passing the buck yet again. If you think the current budget is in trouble, wait until lawmakers start working on the next one,” Williams said.

Amber Gunn (agunn@effwa.org) is director of the Evergreen Freedom Foundation’s Economic Policy Center.
Illinois Democrats Pass Last-Minute $7 Bil. Tax Hike

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victory: 60-57 in the House and 30-29 in the Senate. A few hours later, lawmakers who were elected in November were sworn in. The new General Assembly had more than enough members to have blocked the tax increases.

No Republican Support
Gov. Pat Quinn (D) signed the bill January 13. Not a single Republican in either chamber voted for the tax increases.

Quinn signed the bill with no ceremony or comment. However, in announcing he would sign the bill, Quinn explained his decision by declaring, “Our fiscal house was burning.”

The state’s flat 3 percent personal income tax rate goes to 5 percent until 2015, then drops to 4 percent. For businesses, the 4.8 percent corporate rate rises to 7 percent until 2015, when it drops to 5.6 percent.

Nearly Highest Corporate Tax
In addition to the corporate rate is a “property replacement tax” of 2.5 percent that all businesses pay, which takes the new total corporate rate to 9.5 percent, giving Illinois the third-highest corporate tax rate in the nation.

There is considerable doubt the tax rates ultimately will drop as scheduled. The state’s prior income tax was the result of a “temporary” tax increase that became permanent until this tax hike.

Just prior to the New Year, newspapers reported Quinn was trying to put together a one-year, $15 billion borrowing package to keep the state government afloat. Illinois already has the nation’s worst credit rating among the 50 states as well as a $15 billion budget deficit, worst in the nation as a percentage of total state spending.

The borrowing plan was soon dropped, to be replaced by the tax hikes, which still leave Illinois with a multibillion-dollar deficit.

$8.75 Billion Borrowing Plan
On the day he signed the tax hikes into law, Quinn announced a new borrowing plan, this one for $8.75 billion to cover the gap and pay $6 billion in overdue bills.

“Borrowing costs, combined with annual increases in the expected pension contribution, will crowd out basic government functions in the near future,” said John Fillman, CEO of the Illinois Policy Institute, an independent policy research organization. “Our past borrowing is already catching up to us. Illinois would have had an extra $1.6 billion in available revenues this year if not for the debt service costs of previous years’ borrowing. Gov. Quinn’s borrowing will hit the working class, poor, and disadvantaged of Illinois the hardest.”

Wipes Out Federal Extensions
“Families and businesses simply cannot pay more in taxes to bankroll years of irresponsible and unaccountable state spending.”
MIKE TRYON
STATE REPRESENTATIVE
CRYSTAL LAKE, ILLINOIS

“The tax hike only passed because Democrat leaders were willing to ram it through against the will of the people in the lame-duck session. The reaction to this tax hike is clear. The will of the people is that it be revoked and that we reform spending to balance the government’s books.”
SEN. MATT MURPHY (R-PALATINE)

“We didn’t prove our case that we’ve done everything we could do to cut spending. ... We were told this was a temporary tax increase, and we need to make sure that it becomes temporary. Citizens of Illinois need to hold the feet of the legislature to the fire.”
SEN. JOHN MILLNER (R-CAROL STREAM)

“Illinois is in crisis, absolute financial crisis, and there is no way we can dig ourselves out of the crisis without increased revenues.”
HOUSE MAJORITY LEADER BARBARA FLYNN CURRIE (D-CHICAGO), IN FLOOR DEBATE

Note: Several Democratic lawmakers contacted for comment after the votes were cast declined to respond.

— Brian Costin
Oregon voters last year approved measures raising the income tax on the wealthiest 2 percent of the state’s residents, those earning more than $250,000, but the new tax has brought in much less revenue than expected.

The state received only $130 million in additional revenue rather than the expected $180 million in the first year of the tax and may have permanently lost some high-income residents who opted to move to lower-tax states.

There are plenty of lower-income tax states from which to choose. As a result of the tax increase, Oregon’s tax rate is 10.8 percent on joint-filer income of between $250,000 and $500,000, and 11 percent on income above $500,000. Only New York City, which includes state and local income taxes, has a higher rate.

Most high-income residents of Oregon quickly enacted financial plans to avoid as much of the tax as possible after it became clear approval was imminent, according to Steve Buckstein, a policy analyst and founder of the Cascade Policy Institute in Portland, Oregon.

Projections Dropped by One-Third
The state’s revenue office has revised tax collection projections down for the first three years by one-third. The tax increase was “worse than worthless,” said Buckstein. “It raised a lot less money than the voters were told that it would. Higher-income people just changed their behavior. We did an analysis before the vote and projected that there would be 70,000 fewer jobs and 80,000 fewer high-income tax filers if this was approved. People in those tax brackets could move outside of the state or concentrate their businesses in other states.”

“Higher-income people just changed their behavior. ... People in those tax brackets could move outside of the state or concentrate their businesses in other states.”

Oregon last year also raised its capital gains tax rate from 4 to 9 percent. Buckstein said many businesses moved to the neighboring state of Washington as a result. He expects residents also to move to Washington, which has no capital gains tax and no personal income tax.

“There are a lot of nice communities right over the border that have a large number of former Oregonians,” Buckstein said.

Continued Growth in Programs
Instead of raising taxes, the state should have cut spending, Buckstein says. But even as the state was deep in the throes of the latest recession, lawmakers started new programs requiring additional taxpayer money.

“Oregon has suffered from having liberal tax-and-spend governors for the last 20 years,” said Jason Williams, director of the Taxpayers Association of Oregon. “We’re used to huge increases in programs, but now we have to cut.”

The numbers tell the story of how ineffective the most recent tax increase has been, Williams added. “It’s helped destroy and drive businesses out of the state. Many businesses were ruined by the increased taxes,” Williams said.

Phil Britt (spenterprises@wowway.com) writes from South Holland, Illinois.

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Property Tax, Pay Caps Highlight Christie’s N.J. Reforms

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but four other states from 2000 to 2008, according to the nonpartisan Tax Foundation.

First Moves
Christie presented his “toolkit” of reforms to the legislature in May 2010, 33 bills in all. The centerpiece was a new property tax cap, which passed in July. Previous caps were short-circuited by numerous exemptions for particular categories of spending. For example, the 4 percent cap enacted in 2007 had 16 exemptions.

In 2009, almost one-third of the municipalities in New Jersey raised taxes by more than 4 percent through such exemptions, says Josh Barro, Walter B. Wriston Fellow at the Manhattan Institute.


Christie’s original tax cap proposal had only one exemption, which grew to four exemptions before passing. The additional exemptions include pension and health care costs, which are growing at double-digit rates.

Stressed Local Governments
Mason Neely, chief financial officer of East Brunswick, believes property taxes will grow by more than 2 percent.

“Local government is not the cause of the tax increase, but is driven by what happened under the golden dome [state legislature],” said Neely. He cites pension and health insurance costs, which are run by the state but paid for locally, increasing 22 percent and 18 percent, respectively, in 2011.

Furthermore, the state collects taxes, such as those paid by public utilities, on behalf of local governments. The state is supposed to distribute them back but has not done so, further stressing local budgets.

“Local governments lost $400 million in transfer payments to the state. It was diverted to the state to balance their budget,” said Bill Dressel, executive director of the New Jersey State League of Municipalities. The diversion happened as the state dramatically raised its administrative charge for collecting the taxes.

The tax cap does not address any of the underlying costs that drive property taxes, Dressel says. The cap’s success depends on further reforms being passed, including those addressing pension costs, health care costs, civil service reform, and government employee sick leave compensation, he notes.

Pressure for Reforms
Why enact a tax cap before containing costs?
“It creates political pressure to enact other reforms,” said Barro.

New Jersey has mandatory binding arbitration for disputes between state and local government and employee unions. An arbitration reform that passed in December bars arbitrators from awarding wage increases beyond 2 percent.

“It sends a powerful message to arbitrators,” said Dressel.

Need for More
Notably missing from the list of reforms is any bill to address New Jersey’s poor accounting standards and transparency. Sheila Weinberg, CEO and founder of the Institute for Truth in Accounting, says reforms are critical because “poor budgeting standards allow politicians to expand the government beyond what the people are willing to pay for.”

New Jersey has a constitutional requirement to balance the budget, but Weinberg questions its effectiveness when the government is allowed to skip pension fund payments.

“How can they claim a balanced budget when they don’t pay all their costs?” Weinberg asked. “People don’t pay attention until a crisis because they assume budgets are balanced.”

Owes $42,700 per Taxpayer
Weinberg says New Jersey’s accounting ranks second worst in the nation, allowing the state to rack up $42,700 in unpaid liabilities per taxpayer, most of which is for pension and health care benefits.

Budgetary accounting is not the only area of concern. Pension accounting has come under fire as well because of unrealistic assumptions and questionable “smoothing” algorithms.

A recent study by professors Robert Novy-Marx and Joshua Rauh contends the discount rate used in pension accounting runs counter to well-established financial economics and is much higher than it should be. A high discount rate, along with a narrow actuarial method, can grossly misrepresent pension liabilities. Making these assumptions more accurately reflect reality could nearly quintuple reported pension liabilities in New Jersey.

Barro cites an example from 1999 when the state reset the value of its pension assets to the market high point in order to justify a 9 percent increase in benefits.

The smoothing methods also can misrepresent the assets on hand to pay for benefits. The Public Employee Retirement System (PERS) reported an actuarial value of assets $9 billion more than their market value in their most recent valuation. Overvaluation allows state and local governments to contribute less to pension plans, further increasing the unpaid liability.

“Poor accounting has been very costly and leads to bad policy,” said Barro.

Roman Hardgrave (rhardgrave@yahoo.com) is a graduate student in economics at George Mason University. His current research focuses on the effect of public-sector unionism on municipal budgets, to be published in a forthcoming Mercatus Center Working Paper.

“How can they claim a balanced budget when they don’t pay all their costs?
People don’t pay attention until a crisis because they assume budgets are balanced.”

SHEILA WEINBERG
CEO AND FOUNDER
INSTITUTE FOR TRUTH IN ACCOUNTING

Bill Dressel is executive director of the New Jersey State League of Municipalities.
N.C. Bus Operator Says Subsidies Threaten His Business

By Karen Welsh

A private bus service owner in Hickory, North Carolina claims another bus operation has illegally landed government subsidies that could put his transit company out of business.

John Chamberlain, founder and owner of the Hickory Hop shuttle service, has accused Coach America, also known as Mountaineer Express, of using taxpayer funds to provide a cheaper service from Boone and Hickory to Charlotte-Douglas International Airport (CLT). The state’s Unseats Act prohibits North Carolina government agencies from competing with private commercial enterprises.

The alleged violation may have occurred after Coach America advertised its cheaper rate on its Web site, in its terminal, and on its telephone reservation lines. In the ads, Coach America informed passengers they could get from Boone to CLT for a one-way cost of $17.75.

Hickory Hop—which receives no taxpayer subsidies—charges $70 for the same service.

Coach America won a contract with the North Carolina Department of Transportation in September to secure federal funding for the service. NCDOT and the U.S. Department of Transportation subsidize several fixed-route, scheduled bus lines between North Carolina cities.

15 Percent Drop

“They are undercutting my business using state subsidies,” said Chamberlain. “It is hurting my business. I am already down 15 percent since they started offering service. I’ve gone from a small measure of profitability to just breaking even again. I am struggling hard.”

“This is a waste of taxpayer dollars. I feel like I am paying my taxes to put myself out of business.”

JOHN CHAMBERLAIN, FOUNDER AND OWNER, HICKORY HOP

“This is a waste of taxpayer dollars,” Chamberlain added. “I feel like I am paying my taxes to put myself out of business.”

When NCDOT Director Miriam Perry got wind of Chamberlain’s complaints, she told Coach America Vice President and General Manager Steven Crossken to stop both the ads and the service between Boone and CLT.

“(Crossken] said he was contacted by the Boone Area Chamber of Commerce to provide service to the airport,” Perry said. “That’s not what we committed to. I told him not to do that.”

Perry said the state’s contract with Coach America was meant to provide one trip daily between the bus stations in Boone and Charlotte. “The intent was not to provide trips to the airport,” she said.

Apparent Scheme

In a written statement, Crossken said his subsidized bus service was not going directly to CLT, which is correct. Even so, e-mail messages obtained by Carolina Journal revealed Crossken and Dan Meyer, president and CEO of the Boone Area Chamber of Commerce, were planning to undercut the Hickory Hop service.

Perry was one of several people copied on the e-mails in which Crossken told Meyer how passengers could ride Coach America to the Charlotte Greyhound bus station and then transfer to another bus service for a total one-way cost of $17.75. “We can now say with certainty that we have the ability to service passengers very conveniently from every stop between Boone & Fayetteville to Charlotte Douglas International Airport!” Crossken wrote to Meyer.

“I think that the combination of students, tourists, and business people will make for a very successful Mountaineer Express to CLT!” Crossken wrote to Meyer. “Just wish it went to the CLT airport—maybe in the future.”

Meyer also suggested Crossken provide specific information regarding a shuttle to CLT from the Greyhound bus terminal, stating it would “significantly impact” his company’s ridership.

“Tourists are particularly interested, and so are business people who are flying out of CLT,” Meyer said. “Having that specific shuttle info ‘attached’ to your flier will encourage many to take the Mountaineer Express.”

Way Around Rules

The e-mails suggest both Crossken and Meyer were aware of the legalities and constraints of the government-subsidized route and were looking actively for ways to circumvent the rules.

“I just had a very good call with Dan [Meyer] and wanted to share his feedback with you,” Crossken wrote to a third party. “As we discussed on the call this morning, he understands that we cannot add the CLT airport location as a stop at this point in time. However, he is interested in providing communication directly to in-bound travelers as well as local residents in the Boone area about how they can connect with the Mountaineer North/South to reach the airport. Would you be able to conduct some research to identify the opportunities to connect directly between the Greyhound Terminal in CLT and the CLT Airport?”

When asked whether Crossken or Meyer was aware of the Hickory Hop service, Meyer replied that he was, as Chamberlain is a member of the Boone Area Chamber of Commerce.

However, Meyer said the steep cost of ridership on the Hickory Hop made it restrictive and “somewhat limited” for many passengers traveling to and from the area.

Threat to Business

Chamberlain had applied for access to the government-subsidized route, since Hickory Hop already was supplying service to the Greyhound station and CLT. He was turned down early in the process.

Chamberlain believes decisions were made behind closed doors that may sink his fledgling business and put his 12 employees out of work.

He said the state has put out a bid for intercity bus transportation from Boone and Hickory to Charlotte for the past five years, but no one else applied until his business started showing a profit.

Chamberlain has contacted the office of state Sen. Austin Allran (R-Catawba), whose staff is researching the situation.

Karen Welsh (writeaway777@hawaii.rr.com) writes for Carolina Journal, where a version of this article first appeared. Used with permission.
Estate Tax Battle Continues

By Matthew Glans

2011 ushered in the return of the estate tax—“death tax” to its critics.

Lawmakers extended for another two years the federal tax rates enacted in 2001 and 2003. Those included annual drops in the estate tax until it hit zero in 2010. The tax was supposed to jump back to 55 percent in 2011, but the agreement to extend the 2001 and 2003 tax rates set the estate tax rate at 35 percent, with the first $10 million exempted.

Liberal Democrats strongly opposed the estate tax—portion of the tax extensions agreement—they wanted the tax rate to be higher and the amount exempted to be lower—and they may yet try to get their wish by introducing a new estate tax bill.

Others, though, oppose the estate tax regardless of the rate or the amount exempted.

‘Counter to Core Values’

“The very principle that a person’s death triggers the government’s sense of entitlement to take more of the people’s hard-earned assets is offensive on its face and runs counter to core American values of industry and individual liberty,” said 60 Plus Association Chairman Jim Martin.

“This is especially true since the assets in question have already been taxed at least twice, as principal income and as investment income, and a good deal of the time the government takes four or five tax bites over the life of the assets,” Martin said. “As an economic reality, assets passed down within families are much more productive and useful to society than those same assets in the hands of politicians and bureaucrats.”

Dick Patten, president of the American Family Business Institute, said: “After a lifetime of saving, investing, and building businesses, farms, or other operations, it is wrong for the IRS to confiscate 55 percent, 45 percent, or even 35 percent of what has been left to another generation’s stewardship.”

Multiple Taxation

“A dollar earned in a salary is subject to income and potentially payroll taxes. A dollar that comes from investment profits is subject to capital gains or dividend taxes,” Patten explained. “When these dollars are reinvested in a company or farm and then left to the next generation, they are taxed yet again by the death tax.”

Supporters of estate taxes argue they recover tax revenue that might have been missed during the taxpayer’s life, including capital gains taxes that were not fully collected.

“Over half the value of inherited estates is capital gains income that has never been taxed. Most large estates include assets such as real estate, stocks, or bonds. Any increase in the value of these assets is capital gain income that would only be subject to the income tax if the assets were sold during the owner’s lifetime,” wrote Americans for a Fair Estate Tax (AFET), a group of nonprofit organizations that support estate tax exemptions. “This is especially important in light of the current economic downturn in which charities are struggling to continue providing vital community services.”

According to a study from the American Family Business Institute, reinstating the estate tax at any level damages small-business hiring.

“At the rate of 55 percent, the estate tax will destroy over 1.3 million small business jobs. At a 45 percent rate, the estate tax will destroy over 1 million jobs. At a 35 percent rate, the estate tax will destroy over 850,000 jobs,” said Patten.

Matthew Glans (mglans@heartland.org) is a legislative specialist in financial services for The Heartland Institute.

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“At the rate of 55 percent, the estate tax will destroy over 1.3 million small business jobs. At a 45 percent rate, the estate tax will destroy over 1 million jobs. At a 35 percent rate, the estate tax will destroy over 850,000 jobs,” said Patten.
A 2005 study of the estate tax by the Congressional Budget Office included this honest line: “Economic studies have had limited success in identifying how the estate tax may influence the behavior of farmers and small-business owners.”

That would describe much of the empirical evidence on many aspects of taxation, generally. Dramatic claims get made about the incentive effects or the lack of incentive effects. Dramatic claims get made for the estate tax’s role in reducing inequality or killing family farms or discouraging capital formation or leveling the economic playing field. But it is hard to know the size of any of these effects with much accuracy.

More importantly, perhaps, as in many areas of economics, one’s assessment of the empirical work conveniently lines up with one’s philosophical attitudes toward government. So I won’t pretend my dislike for the estate tax is because it hurts capital formation, say, which it certainly might. That’s not the main reason the estate tax bothers me.

Wrong to Tax Twice
I don’t like the estate tax on moral grounds.
It’s wrong for the government to tax people twice, once when they earn the money and once when they give it away, if the giving away is done after death, an arbitrary and unpredictable deadline.

It’s wrong for the government to create a tax that benefits tax lawyers and insurance companies for their creativity in structuring tax havens rather than helping to make the world a better place. And it’s wrong to tell the richest Americans that they will be punished for sharing the fruits of their labor or good fortune as they see fit, even if you or I might imagine in moments of hubris and envy that we could spend it so much more wisely.

Why the Estate Tax Presents Moral Problems

By Russell Roberts

"[I]t’s wrong to tell the richest Americans that they will be punished for sharing the fruits of their labor or good fortune as they see fit, even if you or I might imagine in moments of hubris and envy that we could spend it so much more wisely.”

Russell Roberts (russroberts@gmail.com) is a research fellow at Stanford University’s Hoover Institution and professor of economics at George Mason University. He is the host of EconTalk, a weekly podcast, and writes for CafeHayek.com, where this first appeared. Used with permission.
‘Low-Ball Express’ of High-Speed Rail

By Wendell Cox

You know something is up when a Washington Post editorial advises the Obama administration to do a “reality check” on its plans for high-speed rail. From the beginning it included more slow-speed than high-speed rail, and now both components of the plan could be in trouble.

The Onion—which specializes in news satire—joined the debate with a satirical video announcing a federal “high-speed bus” program that would replace the high-speed rail plans.

The Post criticized Secretary of Transportation Ray LaHood for not allowing Wisconsin and Ohio to use the federal money to make needed highway improvements instead:

“This blunt refusal to heed the fresh mandate of Ohio and Wisconsin’s voters seems hard to justify—especially since using the money for other infrastructure would have created jobs, just as building trains would have,” the Post editorial observed.

Wisconsin and Ohio
Wisconsin’s new Republican governor, Scott Walker, took aim at the Milwaukee to Madison line, which would average less than 60 miles per hour despite reaching speeds of 110. Ohio’s new Republican governor, John Kasich, says Ohio’s proposed Cincinnati to Cleveland train is “dead.” It could have been named the “Ohio Fast Mail,” because it would have averaged 50 miles per hour, about the same speed as the Fast Mail over the longer New York and Niagara Falls route— in 1877! These trains would have operated at average speeds from one-third to one-fourth those achieved by the Wuhan to Guangzhou trains in China.

Illinois, Too
Similar problems have arisen in Illinois. That state received $1.1 billion from the federal government to ramp up Chicago to St. Louis speeds to 110 miles per hour and make the trip in four hours. Yet the state received only about one-third of the requested $3 billion from the federal government for this project.

It is a fair question where the rest of the money is coming from. Illinois had proposed to contribute only 1 percent of the cost ($4 million), leaving the project still nearly $2 billion short, even before the seemingly inevitable cost overruns, which are already an inflation-adjusted eight times earlier projections. Illinois has a $15 billion budget deficit and simply does not have the money to complete the job.

Cynical Myths
One of the most cynical myths about slower-speed rail is that it is a “stepping stone” to genuine high-speed rail, which is now being built in some countries to operate from 200 to 220 miles per hour. Such claims are patently misleading.

The slower-speed 110 mile per hour trains would run on tracks shared with freight trains, and there would be some grade crossings (intersections with roads where trains, trucks, and cars could conceivably collide). Genuine high-speed rail requires starting all over.

Illinois provides an example. The unfunded $3 billion slower-speed line is not enough. The state has also sought federal funding to plan a genuine high-speed rail line that would cost an additional $12 billion, according to a Midwest High Speed Rail Association report. However, that amount would rise substantially, since it does not include rail cars, maintenance facilities, stations, and, of course, cost overruns.

There is nothing incremental about building one line and then abandoning it to build another.

California Rail
Meanwhile, the news is not encouraging to proponents of the nation’s two proposed genuine high-speed rail lines, in California and Florida.

For two years the California High Speed Rail Authority has been concentrating its attention on planning for the two most expensive sections of its proposed $43 billion (before cost overruns) line from Los Angeles (Anaheim) to San Francisco. Plans that some claim would create a Berlin Wall across the largely affluent cites of the Peninsula led to a “boondoggle rally” attended by 500 people in Palo Alto.

Community concerns also have been raised about the line through Orange County and southeastern Los Angeles County.

Now the federal government has virtually steered all promised money to the San Joaquin Valley, requiring that it be spent between Merced and Bakersfield. The provisions of the high-speed bond issue will require state funding be spent where the federal money is spent.

Some Sanity
The federal Department of Transportation has not indicated its rationale for this decision, but the new strategy could indicate a modicum of sanity may be at work. Clearly the state of California does not have the money to build the system.

Joe Vranich and I raised this issue in our Due Diligence report on the system, published by the Reason Foundation. We noted the proposed 2 hour, 40 minute travel time from San Francisco to Los Angeles Union Station would more likely erode to 3 hours, 40 minutes, because the trains will not be able to travel as fast as planned in the urban areas, and they are not likely to attain their aggressive planned speeds on other portions of the route.

We also suggested the likelihood that only part of the system would be built, with trains operating at conventional speeds over conventional tracks for the final 60 or more miles into San Francisco and Los Angeles. With insufficient money, there could be pressure to cut the genuine high-speed rail portion of the system back.

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This would bring the now-discarded slower-speed rail vision of Ohio and Wisconsin to California. Trains might well average 70 miles per hour or somewhat more.

It could be worse. Californians Advocating Responsible Rail Design (CARRD) reveals the California High Speed Rail Authority has a “Plan B.” Its October 2009 application to the U.S. Department of Transportation indicated, “In the event of significant delays or abandonment of the HST program, the Merced/Fresno Program would have created rail crossing benefits, as well as provided the potential for significant improvement to the existing San Joaquin intercity passenger service operated by Amtrak and underwritten in part by the state.”

Doubts in Florida
People also were having second thoughts about the proposed genuine high-speed line between Orlando and Tampa. The two cities are so close together that even if the train reached the speed of light, car travel could be faster after factoring in waiting in a rental car line and driving to and from the stations.

Congressman John Mica has suggested the line be truncated to a local operation between Orlando International Airport and Disneyworld. Gov. Rick Scott (R) is now reviewing the project.

Review in China
The international news is barely any better. The Chinese government is now reviewing the wisdom of its huge expenditures on high-speed rail, as a result of a critical report from the Chinese Academy of Sciences.

In England, as in California, communities are resisting a proposed high-speed rail line. Cost overruns have been routine, as have been revenue and ridership shortfalls relative to the always-rosy projections.

At least in the United States, the high-speed rail “low-ball express” remains stuck in the station. The actual costs, however, will certainly rise well above the low-ball estimates.

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Researchers Skeptical about Bank Taxes

Taxes on executive bonuses, financial transactions, and excess profits are a few of the taxes proposed or enacted to punish banks for their role in the recent financial crisis, but most of these ideas have shortcomings, says a University of Michigan economist. “A number of potentially complicated and ambitious new taxes on the financial sector are currently being discussed,” said Joel Slemrod, professor of economics and the Paul W. McCracken Professor of Business Economics and Public Policy at Michigan’s Ross School of Business. “While the recent financial crisis shows how important it is to consider whether such instruments might help to improve incentives, reform efforts should not unduly focus on the exotic and new at the expense of the familiar and old.

“Addressing undesirable incentives within the existing income tax may be as or more important as creating new tax instruments,” he continued. Slemrod and colleagues Douglas Shackelford of the University of North Carolina’s Kenan-Flagler Business School and Daniel Shaviro of the New York University Law School examine the role of taxation in the financial sector in a new study published in December in the National Tax Journal.

Bad Incentives Remain

Even if fairly well-designed tax instruments are adopted, they say, the key incentive problem that gave rise to the financial crisis—excessive risk-taking by firms and managers that did not face the entire downside—will likely remain.

“Expected social harm, other than the purely pecuniary to the government as insurer, is multidimensional and difficult to measure,” Slemrod said. “And even that pecuniary harm cannot be measured entirely accurately through a risk-adjusted fee. Thus, the classic tax-or-regulation debate is surely beside the point with respect to financial institutions, because regulation of the financial sector both is not going away and should not.”

Slemrod and colleagues say, however, that new tax instruments might conceivably be part of the regulatory response to lessons learned about how to reduce the chance of future crises—despite some skepticism regarding their efficacy.

Little Evidence for Improvement

Proponents of a financial transactions tax, for example, say it would increase the costs of financial asset transactions, thereby reducing speculative and technical trading that increases financial markets’ volatility and susceptibility to bubbles. The researchers say, however, that little evidence exists to support the claim that an increase in transaction costs generally improves market functioning.

“The efficiency cost is likely to be high relative to the revenue raised, given the lack of any good evidence that it improves incentives or addresses externalities in any clearly identifiable respect,” Slemrod said. “The allure of its low rate relative to revenue potential is illusory, and its incidence is uncertain.”

A tax on bonuses of bank executives, if applied retroactively, could be effective as a retributive penalty if collected from employees rather than firms (i.e., shareholders), the researchers say. However, future recurring taxes on bonuses is an invitation to avoidance, given the difficulty of ascertaining and monitoring what part of compensation is, in fact, a bonus.

Source: University of Michigan News Service
More Municipalities Use Car Crashes as Money-Makers

By Matthew Glans

New proposals to create accident fees, which opponents have dubbed “crash taxes,” continue to emerge in municipalities across the country.

Tulsa, Oklahoma and New York City are among the dozens of cities recently proposing to charge motorists involved in crashes for the costs of cleanup and emergency response. The initial response to the fees in both cities was mixed.

Local officials see accident fees as a way to increase revenues. They frame them as “user fees” for emergency services delivered at the scene of an automobile accident. The fees do not replace, but rather are in addition to, property and other taxes already paid by residents and businesses for such local services.

Passing on Costs

Critics see the fees as attempts to pass on the costs of motor vehicle crashes from municipalities to auto insurance companies.

In New York City, Mayor Michael Bloomberg has stated he supports accident taxes, arguing in a recent radio interview on WOR New York that the tax was a better alternative to city firehouses closing. The city council is split over the issue.

Supporters of the taxes, such as New York City Councilman Oliver Koppel, have told reporters crash taxes are usually covered by automobile insurance—but that’s not true.

Mary Bonelli of the Ohio Insurance Institute says accident fees may end up being paid by motorists when the insurer refuses to pay the bills because the charges aren’t a covered expense. And drivers who do not have collision coverage—who have bought only liability coverage or are uninsured entirely—are stuck with the full bill.

“No matter how they’re disguised, these types of fees are double taxation,” Bonelli said. “And the reason we look at it from that standpoint is the fact that citizens and businesses pay taxes for public safety, and that includes your fire protection and police protection and emergency medical services.”

Bonelli said in communities where accident response fees are being proposed, officials are trying to shift the costs of taxpayer-supported emergency services onto insurance companies. Yet in Ohio and other states, most insurance providers do not cover the costs if they are nonmedical.

No Premiums

Because they were never intended to be covered, Bonelli said, insurers have never collected premiums to cover emergency service response costs.

“What happens in many situations is that when the bill is sent to the insurance company and is denied, the billing company, which is typically a third-party collection company, who collects anywhere from 10 to 15 percent off the top of every dollar that’s collected, will turn around and attempt to recoup the fee from the driver,” Bonelli said.

Additionally, in some cities, according to Bonelli, most of the ordinances that create accident fees do not provide for the collection of fees from drivers. In these cases, if the bill ends up in the hands of drivers, the bills are not legally enforceable.

“I think it’s very important that drivers understand how these ordinances are written within specific communities. Often they are written as soft billing ordinances, meaning that an individual who gets socked with one of these bills may not necessarily be required or mandated by law to pay it. They may be subjected to two to three billing statements from the vendor, and then if they are not paid, they typically go away,” said Bonelli.

“So what we recommend is that if an individual gets one of these bills, they should turn around and contact the city or municipality and ask for a copy of the accident response fee order and find out if it’s a soft-billing ordinance, and then make a decision as to whether or not to actually pay it,” Bonelli continued.

Possibly Illegal

Insurer groups including the Property Casualty Insurance Association of America argue the fees are unfair, discriminatory, and possibly illegal because they arbitrarily affect nonresidents. In recent years, several states—including Arkansas, Georgia, Indiana, Missouri, Pennsylvania, and Tennessee—have passed legislation banning crash taxes.

Sam Sorich, president of the Association of California Insurance Companies, called the charges “bad public policy” in a recent Wall Street Journal article.

“Firefighters and police who come to a scene of an accident are seen and should be seen as providing relief and service, not there as a fee-generating opportunity for the city,” Sorich wrote. “The optics are not good.”

California Ban Effort

An effort to ban crash taxes is currently underway in California.

State Sen. Tony Strickland (R-Thousand Oaks) introduced a bill in December that would prohibit local governments from charging the fees. Strickland says such fees are not fair to already tax- pressed Californians traveling across the state.

“Hardworking Californians are already struggling to make ends meet and simply cannot afford yet another tax,” Strickland said in a statement.

“Californians, regardless of the city in which they live, work, or visit, should be award- ed certain public safety protections,” Strickland added. “They should be allowed to commute to work or travel on vacation without having to worry about a bill waiting for them when they get home.”

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By Michael D. Jahr

High tax rates on cigarettes are driving up the rates of illegal cigarette smuggling, according to a report by the Mackinac Center for Public Policy in Midland, Michigan.

The authors calculated that in 2009 more than half (51.8 percent) of the cigarettes consumed in Arizona had been smuggled into the state, making it the leader in cigarette trafficking. The authors contend Arizona’s position is a direct function of its 82 cents per pack cigarette tax hike in December 2006, a 2009 federal cigarette tax hike, and the state’s proximity to Mexico.

“In 2007, Arizona had already increased its state excise tax on cigarettes from 118 cents per pack to 200 cents, but in 2009, the U.S. government increased the federal cigarette excise tax from 39 cents per pack to 100.66 cents,” the report notes. “Together, these tax changes resulted in a full 143.66-cent-per-pack increase, raising the incentive to smuggle cigarettes from Mexico to Arizona.”

Rounding out the top five smuggling states are New York (47.5 percent), Rhode Island (40.5 percent), New Mexico (37.2 percent), and California (36.3 percent).

‘Not Sheep for Shearing’

“It should come as no surprise that states with increasing excise taxes also saw significant increases in total smuggling rates,” said study coauthor Todd Nesbit, a College of Charleston assistant professor of economics and Mackinac Center adjunct scholar. “Taxpayers are not sheep lining up for a shearing—if they have to cross a border to save money, they will.”

Between January 2007 and 2009, 21 of the 48 contiguous states—including tobacco state North Carolina—raised their cigarette taxes, producing a total of 27 tax hikes. In 2010, tobacco state South Carolina and five other states followed suit.

The authors examined both “commercial” and “casual” smuggling. Commercial smuggling involves large-scale and typically long-distance operations, while casual smuggling typically involves individual cross-border purchases for personal use.

In the latter category, Michigan finished 5th among the 47 states in the study at 11.6 percent of total state consumption, topped only by New York (19.9 percent), Rhode Island (18.2 percent), Washington (14.5 percent), and Montana (13.2 percent).

Associated with Crimes

Commercial smuggling also plays a significant and often dominant role in smuggling. The top five states for commercial, in-bound cigarette smuggling are New Jersey (29.1 percent), New York (28.5 percent), Vermont (24.2 percent), Massachusetts (23.3 percent), and Connecticut (20.9 percent).

“Few people realize the vast array of unintended consequences, such as theft and violence, inflicted on job providers, consumers, police, and other innocent victims,” said Michael D. LaFauve, Mackinac Center director of fiscal policy and the study’s coauthor.

Michigan’s commercial smuggling rate is 16.6 percent. The new study details how just one recent commercial smuggling case in Michigan allegedly involved the illicit purchase of more than 40 million cigarettes between October 2008 and July 2009.

Theft, Hijacking, Violence

Illicit transactions represent lost revenue to the state treasury and can produce a raft of unintended consequences including theft, hijacking, violence against residents, and distribution of dangerous, often adulterated counterfeit cigarettes, the report observes.

The authors also attempted to forecast the impact of proposed cigarette tax hikes in California, Illinois, Michigan, and Ohio. They found a $1.25 per-pack tax increase in Ohio would increase the state smuggling rate to 23.3 percent from 9.2 percent of in-state cigarette consumption. In Illinois, a $1 tax increase would cause cigarette smuggling to go from 5.9 percent to 26.3 percent. California would see its smuggling rate increase from 36.3 percent to 51.9 percent with the adoption of an additional $1 per pack tax hike.

Five smuggling destination states moved up by double digits in state rankings of net smuggling rates in 2010: Illinois, from 17th to 30th; Pennsylvania, from 21st to 31st; Massachusetts, from 13th to 32nd; and Nevada, from 29th to 41st. While many other states approved increases in their cigarette excise taxes since 2006, none of these four states had changed their cigarette tax rate by the close of fiscal 2009.

The report is an update of the Mackinac Center’s 2008 cigarette tax and smuggling study, which provided estimated smuggling rates for 47 of the 48 contiguous states.

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Fed’s Statements Don’t Match its Actions

By Robert Genetski

The Fed has finally reported relevant money data for December.

In the two months from October through December (roughly referred to as the QE2 period), the Fed increased bank reserves by $34.3 billion. During the same period, banks increased their deposits with the Fed by $33.5 billion. Hence, the net increase in bank reserves used for bank deposits, loans, and investments was less than $1 billion.

As you may recall, the Fed’s statement in early November gave the impression that since the Fed would be purchasing $75 billion in Treasury securities each month, this was the amount of monetary stimulus we should expect. As has occurred so often, the Fed’s statements are completely inconsistent with its actions. This inconsistency means one of two things. Either the Fed’s statements are designed to deceive the public, or (what is more likely), Fed officials have no idea what they are doing.

So, what does it all mean? The immediate implication of the monetary numbers is that there is sufficient money in the system to allow the recovery that is underway to continue. The average annual growth in bank reserves less excess reserves for the two years ending in the fourth quarter of 2010 is close to 5 percent.

This suggests that there is sufficient money to permit the rate of current dollar spending to grow at roughly a 5 percent to 7 percent pace this year. However, growth from the fourth quarter of 2009 to the fourth quarter of 2010 was only 1 percent, highlighting the erratic shorter-term pattern.

The main caveat regarding monetary policy is the same as it has been. Since Fed officials seem to have no idea of what they are doing, there is always an uncomfortably high probability that they will produce either much more or much less liquidity than would be consistent with stable growth.

This means it will be important to continue to monitor what the Fed does, as opposed to what it says it is doing.

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Obama Backs Collective Bargaining for Airport Screeners

By Steve Stanek

Airport security screeners employed by the Transportation Security Administration may soon have a labor union backing them.

The Obama administration has pledged to extend collective bargaining rights to TSA workers, and the Federal Labor Relations Authority (FLRA) has granted requests from the American Federation of Government Employees (AFGE) and the National Treasury Employees Union (NTEU) to hold an election to see which union will represent the 43,000 TSA workers. The election could be held early in 2011.

Unions also are pushing Congress to pass a law making union representation and collective bargaining permanent. Two House committees approved such a bill in September 2009, but the full House has not voted on it.

‘About-Face from Original Aim’

F. Vincent Vernuccio, labor policy counsel for the Competitive Enterprise Institute, said the decision to allow TSA employees to unionize “is an about-face from the original aim of the agency. In a 2003 memorandum, the under-secretary for transportation said TSA employees should not unionize because ‘of their critical national security responsibilities.’ If TSA is unionized, the American Federation of Government Employees and the National Treasury Employees Union could share in over $80 million of potential dues. With all the talk of security and ‘enhanced screening,’ the question is, does the unionization issue have more to do with national security or money for union bosses.”

“The decision to allow for an exclusive union representative means that transportation security officers get to choose which union they wish to act as their voice at work,” AFGE National President John Gage said in a statement. “It is no secret that the morale of the TSA work force is terrible as a result of favoritism, a lack of fair and respectful treatment from many managers, poor and unhealthy conditions in some airports, poor training and testing protocols, and a poor pay system.”

NTEU President Colleen Kelley also lauded the decision and a December 6, 2010 letter of support from Rep. Bennie Thompson (D-MS), then chairman of the House Homeland Security Committee, to TSA Administrator John Pistole.

“Chairman Thompson recognizes, as do a great many of his colleagues, the importance of collective bargaining rights in the positive development of TSA,” Kelley said in a statement.

The NTEU already represents the 21,000 Customs and Border Protection (CBP) employees, who voted for the union in 2006.

‘A Homeland Security Disaster’

Other lawmakers, including Sen. Jim DeMint (R-SC), strongly oppose the possibility of union representation of TSA workers. In 2009 DeMint sent a letter to the White House objecting to possible union representation.

“Unionizing TSA would be a homeland security disaster,” DeMint wrote. “TSA needs to be nimble in responding to ever-changing threats. Having to wait and check with the union bosses before reacting to urgent aviation security threats reduces our ability to keep Americans safe.”

Some independent labor experts also express concerns.

“Unionizing the TSA gropers is more insidious than just a payoff to the unions for their political support,” said David Denholm, president of the Public Service Research Foundation, which studies the impact of unions on government policy.

“There is growing pressure to privatize the airport screening. This flies directly in the face of the Obama administration’s deter-

— Anne Applebaum, Foreign Policy magazine, January/February 2011
Governors Begin Battle with Public-Sector Unions

By Nick Baker

Facing skyrocketing budget deficits, governors around the nation are readying themselves for a fight with public-sector unions as they look for ways to rein in spending.

In many states, nothing is being left off the table, including ending collective bargaining, banning the right to strike, and requiring state employees to shoulder a portion (or a larger portion) of their pensions and health care costs.

Ohio Gov. John Kasich and Wisconsin Gov. Scott Walker, both Republicans, are beginning their first terms after running for office on platforms calling for an end to what they see as the unions dictating public policy. Both men have reason for optimism because the GOP has complete control of the legislature in both states.

Kasich Talks Tough

In a speech prior to taking office, Kasich said, “If they [state employees] want to strike, they should be fired. They’ve got good jobs; they’ve got high pay; they get good benefits, a great retirement. What are they striking for?”

Kasich said he favors banning public school teachers from striking, and during the campaign he called for an end to Ohio’s 27-year-old collective bargaining law.

“There are going to be concessions in every facet of government. Everyone needs to be contributing,” said Rob Nichols, a spokesman for the governor.

But some people say Kasich is backtracking on his campaign promises.

Wants More

Matt Mayer, president of the Buckeye Institute, a Columbus-based free-market think tank, said although repeal of collective bargaining is still on the table, Kasich lately has been talking more about reform.

Mayer says Kasich should lead with the complete repeal of collective bargaining and then negotiate from there. He says Kasich and the Republican legislature merely want to “nibble around the edges.” He added, “Taxpayers are always getting shortchanged.”

Mayer also says he’s disappointed there has been no talk of moving current or future state employees away from pensions and to 401(k)s as Ohio grapples with a budget deficit of $8 billion.

He said there is a narrow window of opportunity for meaningful reforms to be put into place. If that doesn’t happen this year, Mayer said, it is unlikely to happen in the future.

Walker Surprises

In Wisconsin, Walker is confronting a $3 billion budget deficit, and he has warned state employees they could see their collective bargaining rights in jeopardy if they do not agree to greater salary concessions.

Speaking before the Milwaukee Press Club in December, Walker said, “We can no longer live in a society where the public employees are the haves and the taxpayers who foot the bills are the have-nots.” He added, “We are going to look at every legal means we have to try to put that balance back on the side of the taxpayer.”

Currently, state employees do not contribute to their pensions; Walker is proposing they begin contributing 5 percent. He also says he wants to increase the amount they pay for health care costs, from 4 to 6 percent to 12 percent.

In his first week in office, Walker announced plans to partially privatize the 150-employee Department of Commerce and told current unionized employees they would need to reapply if they wished to continue working there.

“He’s taken an incredible jump out of the gate, really surprising people before he was governor with some bold and cheeky moves,” Edgewood College political science professor Steve Davis told the Rapids-Tribune.

Daniels Proposes More Reforms

When Indiana Gov. Mitch Daniels (R) took office in 2005, one of his first acts was signing an executive order abolishing collective bargaining for state employees.

With the Republicans winning control of the state House and increasing their majority in the state Senate last November, Daniels moved to take reforms one step farther. He proposes establishing merit pay for public school teachers and restricting collective bargaining.

“We must free our school leaders from all the handcuffs that reduce their ability to meet the higher expectations that we now have for student achievement,” Daniels said in his State of the State address.

Christie Stands Firm

Since taking office in 2010, New Jersey Gov. Chris Christie (R) has had to grapple with closing a $10 billion budget deficit. He has proposed a one-year salary freeze for state employees and calls for them to contribute 1.5 percent of their salary toward health insurance.

Those proposals haven’t won him any friends among the unions. At a town hall meeting last summer, a teacher took issue with him, and their testy exchange became a YouTube sensation.

“You’re not compensating me for my education, and you’re not compensating me for my experience,” she said.

“You know what? You don’t have to do it. Teachers go into it knowing what the pay scale is,” Christie told her as the audience applauded.

Abolishing teacher tenure is another goal Christie has expressed. In his State of the State address, Christie declared, “Teaching can no longer be the only profession where you have no rewards for excellence and no consequences for failure to perform.”

As the legislative sessions heat up, these governors appear more willing than their predecessors to take on the unions in an effort to put state budgets back in the black.

Nick Baker (nickaker1776@gmail.com) writes from Washington, DC.
Illinois Cuts Local Pensions for New Hires, Lifts Funding

By Phil Britt

Illinois lawmakers have passed a law requiring local governments to reduce pension benefits for newly hired police and firefighters. The measure follows similar reforms to other municipal government pensions that became law in early 2010.

Though municipalities establish and pay for the pensions, the funding rates are set by the state.

‘Going Way of the Dinosaur’

After the vote to require local governments to begin funding their pensions at actuarial levels, state Rep. Jack Franks (D-Woodstock) said, “It just makes sense. Defined benefit plans are going the way of the dinosaur because they’re unaffordable.”

 Defined benefit plans guarantee pension benefits based on a formula related to years worked and wages earned. Defined contribution plans, such as 401(k)s, which are common in the private sector, do not guarantee a particular level of benefits. They allow contributions to a retirement plan, often but not always with the employer adding to contributions an employee may make. The amount of money put into the plan and investment returns determine how much money a participant receives in retirement.

The legislature’s action came just a few days after the Chicago Tribune published a report stating some local government pensions are only 20 percent funded. State pensions are about 40 percent funded, which is conservatively estimated to be $85 billion in underfunding, the worst such level in the nation.

The Chicago Tribune estimated the underfunding in local government pensions in the Chicago area at more than $2,700 for each suburban Chicago household. The City of Chicago has an unfunded pension liability approaching $15 billion.

Tax Increases for Pensions

Tax increases to close the funding gaps are likely.

Chicago Mayor Richard M. Daley reacted to the new local pension funding law by telling reporters property taxes in the city could double to meet the pension funding requirement.

In northwest suburban McHenry, city officials already had decided to raise taxes. The city’s share of the sales tax increased 50 percent on January 1, from 1 percent to 1.5 percent. City officials said they had to raise the sales tax to pay police pensions. With the state and regional transportation portions of the sales tax added in, the total sales tax rate in McHenry has gone from 7 to 7.5 percent.

But that’s a bargain compared to Chicago, where city, county, state, and regional transportation shares of the sales tax total 10.25 percent.

Ironically, while the state is requiring local governments to begin meeting actuarial estimates for funding of their pensions, lawmakers have not imposed a similar requirement at the state level. Instead, the state government continues to divert money for state pensions to other spending.

Unions Buying Influence

The pension plans offered to firefighters, police officers, and other government workers have been overly generous for years, according to R. Eden Martin, outgoing president of the Civic Committee of the Commercial Club of Chicago, which has studied the local pensions issue.

“One problem is that the unions are the biggest contributors to political campaigns—on both sides of the aisle,” Martin said. He called for government pension providers to start lowering the pension payouts for current and new employees in any future contract negotiations and to extend the number of years a person must work before qualifying for a full pension.

“Otherwise, when it comes time to pay future retirees their pensions, there will be nothing there,” Martin said.

In some instances, Martin notes, local government workers can start receiving pension benefits with as little as 20 years on the job. That means a person can start work in his early 20s, retire from that job in his early 40s, take another government job for another 20 years, and have two pensions before age 65.

Phil Britt (spenterprises@wowway.com) writes from South Holland, Illinois.
With the financial stakes so high, it’s no time for policy gambles.

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