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By Steve Stanek

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Pa. Looks at Partnerships to Fix Roads

By Nick Baker

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By Patrick Gleason

A new report finds the bag tax Washington, DC residents have been paying for more than a year now to be a job-killer and economic loser.

The study, commissioned by Americans for Tax Reform and conducted by the Beacon Hill Institute, examines the economic fallout of the DC bag tax.

One of the more annoying taxes ever devised, the levy covers even those little plastic bags that Subway sandwich shops put your foot-long in. Macy’s has to charge a bag tax with all purchases storewide because it sells Godiva chocolates.

According to the report, the bag tax will result in the elimination of more than 100 local jobs and precipitate a $5.64 million decline in aggregate disposable income for 2011. Most of that income would have been spent in the District of Columbia and, as a result of the bag tax, DC will needlessly forgo an additional $108,340 in sales tax revenue and see investment drop by $602,000, with the bulk of the loss occurring in the retail sector.

Poorest Hit Hardest

The report’s findings underscore that the bag tax takes its greatest toll on the District’s poorest residents and communities.

Unlike many bag tax supporters, DC’s poor and elderly who rely on public transportation aren’t likely to have a Subaru Outback or Volvo station wagon in which to keep handy all of their life is Good canvas bags. And despite the green auspices under which bag taxes and bans are sold, it has yet to be demonstrated that they produce any measurable environmental benefit.

As it stands, the environmental impact wrought by plastic bag taxes and bans is equivalent to the ratio of unicorns to leprechauns in the District—zero. Litter audits conducted before and after San Francisco’s first-in-the-nation bag ban found plastic bags were not a significant source of litter to begin with and actually ended up constituting a greater share of total litter after the ban. The Beacon Hill report crystallizes the dubious economic impact of the bag tax, but bag taxes and bans have other unintended consequences, some of which even pose public health risks.

Health Risks of Reusable Bags

Scientific testing of reusable shopping bags found they are often used for multiple purposes and “seldom if ever washed,” making them a Petri dish for bacteria and cross-contamination. Researchers discovered large quantities of bacteria “in almost all bags and coliform bacteria in half.”

Who’s hungry now? I know I am.

The health concerns don’t end there. A Tampa Tribune investigation in November found certain types of reusable bags sold at Publix and Winn-Dixie stores contained levels of lead the FDA deemed a cause for concern.

The issue has even drawn the attention of Congress. Sen. Chuck Schumer (D-NY) recently called on the Food and Drug Administration, Environmental Protection Agency, and Consumer Product Safety Commission to investigate the matter.

“When our families go to the grocery store looking for safe and healthy foods to feed their kids, the last thing they should have to worry about are toxic bags,” said Schumer.

Ongoing Tax Campaign

Despite evidence that bag taxes and bans are detrimental to the economy and do not improve the environment, anti-plastic zealots continue an aggressive, well-funded lobbying campaign in state capitols and city halls across the country.

The Oregon Senate is considering a bill that would impose the first statewide bag prohibition in the nation. Although a bag tax or ban may not have been proposed in your neck of the woods, don’t worry; chances are it will be in the near future.

This new report on DC’s experience with its bag tax should serve as a cautionary tale.

Patrick Gleason (pgleason@atr.org) is director of state affairs at Americans for Tax Reform. Used with permission from the Washington Examiner, where a version of this article first appeared.

INTERNET INFO

Pa. Looks at Public-Private Partnerships to Fix Roads

Continued from page 1

congested areas. For example, in Philadelphia and Pittsburgh, the partnership could result in the construction of elevated expressways that would charge a toll for motorists who use them to avoid sitting in rush-hour traffic.

Billions More Needed

Last year a state advisory committee told the legislature Pennsylvania roads need $3.5 billion more in annual funding. According to a recent study released by the American Society of Civil Engineers, 38 percent of Pennsylvania’s roads are rated fair or poor. Of the state’s nearly 23,000 bridges, 27 percent are considered structurally deficient and 17 percent are rated structurally obsolete.

The state’s budget deficit currently stands at nearly $4 billion, and Gov. Tom Corbett (R) has vowed not to raise taxes.

Matthew Brouillette, president of the Commonwealth Foundation, a Harrisburg-based think tank, said Geist’s legislation offers a “tremendous opportunity” for the state to begin addressing long-neglected stretches of highways and interstates, and it is a step towards addressing congestion.

Geist’s bill passed unanimously out of the state Senate’s Transportation Committee in early February.

Turnpike Efforts Rebuffed

Gov. Ed Rendell (D) made several attempts during his two terms in office to address the issue, but he ran into numerous setbacks. Last year the federal government ruled Interstate 80, which runs east-west, could not be tolled unless all monies collected were used exclusively for its upkeep. Additionally, Rendell’s plan to lease the Pennsylvania Turnpike created controversy and opposition from some state lawmakers.

Brouillette said some of them didn’t like the idea of the Turnpike being leased, which he says they viewed as encroachment into their “fiefdom.” One of the companies under consideration for the lease was a Spanish-owned company, which caused additional concerns from some who did not want a foreign business to be awarded the leasing rights.

“Since the lead effort [to repair the roads] was the Turnpike lease, that failure prevented the advancement of P3s,” Brouillette said.

P3s Have Bipartisan Support

Now that the dust has settled from the Turnpike incident, Brouillette said, there appears to be enough bipartisan support in the legislature to pass Geist’s bill, and Corbett would be likely to sign it.

“People on both sides of the aisle realize this is an important issue and that the time to do something is now. It’s not a partisan issue, but one of public safety,” Brouillette said.

Nick Baker (nickbaker1776@gmail.com) writes from Washington, DC.

“People on both sides of the aisle realize this is an important issue and that the time to do something is now. It’s not a partisan issue, but one of public safety.”

MATTHEW BROUILLETTE, PRESIDENT COMMONWEALTH FOUNDATION
By C. Kenneth Orski

Vice President Joe Biden has announced a plan to spend $53 billion over the next six years on passenger high-speed rail projects that will help reach the goal of giving 80 percent of Americans access to high-speed rail within 25 years.

According to the announcement, the proposal will place high-speed rail “on equal footing with other surface transportation programs.” The initiative includes $8 billion in the president’s FY 2012 budget proposal, of which $4 billion will be focused on building new infrastructure and $4 billion will be dedicated to system preservation and renewal. The announcement makes no mention of how the plan will be paid for.

‘Extreme Reservations’
Congressional reaction to the announcement was immediate. House Transportation Committee Chairman John Mica (R-FL) and Railroads Subcommittee Chairman Bill Shuster (R-PA) issued a press release expressing “extreme reservations” regarding the administration’s plan. Several congressional sources we reached for comment pronounced the administration initiative “dead on arrival.”

“Rather than focusing on the Northeast Corridor, the most congested corridor in the nation ... the administration continues to squander limited taxpayer dollars on marginal projects,” Mica said.

“Rather than focusing on the Northeast Corridor, the most congested corridor in the nation ... the administration continues to squander limited taxpayer dollars on marginal projects,” Mica added. “This is like giving Bernie Madoff another chance at handling your investment portfolio.”

Shuster was equally critical. “The administration continues to fail in attracting private investment, capital and the experience to properly develop and cost-effectively operate true high-speed rail,” he said. “Government won’t develop American high-speed rail. Private investment and a competitive market will.”

‘Political Grab Bag’
Shuster also was critical of the manner in which the administration has administered the program.

“Selecting routes behind closed doors runs counter to the administration’s pledges of transparency. ... High-speed rail funding could become another political grab bag for the president. ... If the Obama administration is serious about high-speed rail, they should stop throwing money at projects in the same failed manner,” Shuster said.

The strong condemnation by two leading congressional transportation spokesmen poses a serious obstacle for the administration’s proposal on Capitol Hill. They are not alone. House leadership has called for cancelling the high-speed rail program as part of its deficit-reduction plan.

States’ Opposition
Opposition from governors and state legislatures adds another hurdle to the administration’s plan. Without state support high-speed rail projects cannot go forward. But, as we have seen, the governors of Wisconsin and Ohio have declined to participate in the administration’s HSR programs. Other governors, concerned about potential operating subsidies, open-ended risk of construction overruns or unable to raise the required matching funds, may do likewise.

Florida’s Gov. Rick Scott (R), in introducing his budget proposal on February 7, offered a hint about his thinking, which likely makes HSR boosters uneasy.

“Over the last few years,” the governor said, “Florida accepted one-time handouts from the federal government. Those temporary resources allowed state and local governments to spend beyond their means. There was never any reason to think that Florida taxpayers could afford to continue that higher level of spending once the federal handouts are gone. The false expectations created by the federal handouts are the reason we hear about a multi-billion-dollar deficit.”

The words “high-speed rail” and “operating subsidies” were not mentioned, but the implication was clear.

Railroad Opposition
Several other high-speed rail projects are in danger of collapse because of stringent conditions demanded by the Federal Railroad Administration (FRA)—conditions the host railroads find unacceptable. As reported by the respected railroad observer Fred Frailey, high-speed rail projects in Washington State, North Carolina, and Virginia, totaling $1.4 billion in HSR grants, are in jeopardy because the service agreements negotiated by the states with Class 1 railroads have been rejected by the FRA as not strict enough.

At the core in each case is the railroads’ insistence that passenger train operations must not interfere with freight operations and their refusal to accept penalties for potential delays suffered by passenger trains.

If these projects fall through, there will be little to show for the $10.5 billion HSR program other than a 48-minute reduction in travel time between Chicago and St. Louis as a result of an ongoing project with Union Pacific.

Little Progress
It is revealing that the only example the White House announcement chose to highlight was a $38 million program of track improvements between Portland and Brunswick, Maine, to permit a 30-mile extension of the five Downeaster round trips to and from Boston at slightly increased speeds, as Frailey pointed out.

Given this meager progress, given more than ample evidence of congressional and state-level opposition, and with so many, much more deserving infrastructure needs awaiting federal support (including rail in the Northeast Corridor), one wonders why the administration has chosen to doggedly pursue its unrealistic, quixotic vision of a nationwide high-speed rail network.

We hope Congressmen Mica and Shuster will try to get some answers.

C. Kenneth Orski (korski@verizon.net) is editor and publisher of Innovation NewsBriefs, where this article first appeared. Used with permission.
Wis., Ind. Dems Still Hiding to Block Votes on Union Bills

Continued from page 1

Enterprise Institute. “The main points of Walker’s plan are to make unionization optional. Now if you want to be a teacher, you must be a member of the Wisconsin teachers union. Walker’s plan would give teachers the right to not join the union. They could get ahead on their own.

“Not only could they say no, they could say no after seeing how much money they’re giving to the union,” Vernuccio continued. “They would need to affirmatively write a check for dues. Now dues are automatically taken out of the paychecks. Mandatory dues, not having the ability to say no to joining a union, go to the heart of union money and power, and individual rights.”

The protests are pushback against the pushback, with even President Barack Obama joining in and declaring before the National Governors Association on February 28, “I don’t think it does anybody any good when public employees are denigrated or vilified or their rights are infringed upon. We need to attract the best and the brightest to public service.”

Walker did not attend the NGA meeting.

One irony in Obama’s comments is that most federal workers have no collective bargaining rights for wages or benefits, and Walker’s bill would still allow Wisconsin’s government workers to bargain collectively for base pay.

Runaway Lawmakers
The Wisconsin State Senate was scheduled to vote on a budget bill February 17 that would eliminate most collective bargaining rights for public employee unions and stop forced collection of union dues from paychecks, but 14 Democratic state senators fled the state to deny a quorum necessary for a vote to happen.

They have been moving around in Illinois, trying to keep their exact whereabouts unknown and out of reach of Wisconsin State Police, who had been dispatched to find the senators and bring them back.

Assembly Republicans and Democrats have stayed at work and on February 25 passed a budget bill.

The bill would close an immediate budget deficit of $137 million for the fiscal year ending July 1. Wisconsin’s budget deficit for the 2012 fiscal year is projected to reach $3.6 billion.

Choice: Concessions or Layoffs
Under the budget passed by the Assembly, state workers would contribute 5.8 percent of their paycheck to their pensions and 12.6 percent of the cost of their health insurance premiums. Currently, state workers contribute about 5 percent to their health insurance and most contribute nothing to their retirement plans. Walker’s office notes in a fact sheet that the 12.6 percent contribution to health insurance is about half the national average.

Firefighters and police are exempt.

Walker has said without the concessions 1,500 workers would have to be laid off by July, and 12,000 over the next two years. Government workers now say they accept the benefits concessions but will not budge on collective bargaining or dues collection.

Indiana Copycats
Meanwhile, in Indiana, dozens of Democratic Party lawmakers decided to flee to Illinois to shut down the Indiana legislature rather than lose votes on education- and labor-related bills opposed by teachers and other government workers whose unions support Democrats.

But the pushback against the power of government unions by governors and lawmakers has become bipartisan, with New York Gov. Andrew Cuomo (D) also proposing government worker layoffs and other measures to bring down the state’s personnel costs. Governors and lawmakers in several other states, including Michigan, New Jersey, and Ohio, also have introduced measures aimed at reining in the power and costs of government workers.

Unlike Private-Sector Unions
“In a private company-union negotiation, the owners or managers of the company have an incentive to spend their money carefully. And even the union leaders understand that an overly generous wage agreement could jeopardize the company’s survival,” said Cato Institute Executive Vice President David Boaz, who has long studied the growth of government. “But in government negotiations, the taxpayers don’t really have a representative at the table. It’s always easier for elected officials to give the organized interest group what it wants at the expense of the unorganized taxpayers. ... So yes, it’s a good idea for Gov. Walker to try to reduce collective bargaining.”

Boaz added, “It’s rare to see the citizens actually noticing the problem of union influence and pushing back, and I’m delighted to see it. I noticed a rising tide of concern last April, when Saturday Night Live, the zeitgeist-riding comedy show, had a truly harsh sketch about the ‘Public Employee of the Year Awards.’ It touched every element of popular resentment toward government workers: ‘people with government jobs are just like workers everywhere—except for the lifetime job security, guaranteed annual raises, early retirement on generous pensions, and full medical coverage with no deductibles, office visit fees, or copayments.’ ... And I wrote then that when SNL gets on your case, ‘it’s time for unions to start worrying.’”

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

By Christopher Westley

Can one feel schadenfreude for the problems of an entire legislature?

Consider Wisconsin. Like most states in trouble today, the Cheese State has been a land of hefty taxes and regulations for years, causing it, over decades, to leak capital and labor. Many a talented and productive person has been forced to leave the state for regions more conducive to economic growth.

As a result, economic activity taking place there today is based largely on wealth redistribution rather than on wealth creation, as evidenced by the accompanying list of the state’s top 10 employers. Note that six are public-sector entities, which means they are sustained by coerced capital flows diverted from wealth creators. Of the remaining four, two are in a health care industry largely protected from competition due to the cartelizing effect of government regulation of business.

Meanwhile, the largest employer is the much-maligned Walmart, which serves as a godsend in a labor market with so few alternatives for workers. The irony is that Walmart sells goods produced in areas characterized by less intervention in market forces than Wisconsin.

This leaves Wisconsin’s legislature in a bind. The federal stimulus granted it an artificial lifeline, but that runs out this year. Meanwhile, its massive public-sector payroll cannot be met by income taxes on that same sector. (If only!)

Economists now predict a $2.25 billion shortfall in tax revenues for a $31 billion budget, which is now around 13 percent of state GDP. Wisconsin’s debt service now takes up 33 percent of its spending. Of all the state’s revenues, almost 30 percent comes from the federal government.

Propped Up By Feds

This is a state economy propped up by federal spending programs recently monetized by the Federal Reserve. But what else would you expect from a state that was birthplace of both the Progressive movement and better living through progressive taxation? The better living was short-lived, as many taxpayers eventually fled the state.

Those of us with an understanding of economic theory may take pleasure in the rumblings of those who benefited from these policies for decades, as it dawns on them that budget constraints are real-world phenomena that can now, finally, apply to them.

Politically Connected Feeling Pain

Economic schadenfreude is a condition not available to everyone who can experience schadenfreude. It is available only to those who understand economic theory. However, the now-increasing opportunities for this feeling suggest the economy is recovering, to the extent that politically well-connected groups that benefit at the expense of productive members of the economy are now suffering.

Christopher Westley (cawestley@gmail.com) teaches in the College of Commerce and Business Administration at Jacksonville State University. A version of this commentary first appeared at Mises.org. Used with permission.

Wis. Dominated by Government Employment

Jim Collins, bestselling author of the book
Good to Great, praised by Fortune, Business
Week and The Wall Street Journal.

“Good is the enemy of great.
And that is one of the key reasons why we have so little that becomes great.”

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By Steve Stanek

New York’s new Democratic governor, Andrew Cuomo, has proposed balancing the state’s budget with $9 billion of spending cuts from what had been projected, including nearly $3 billion from education, $3 billion from Medicaid, and $1.4 billion from state agency operations.

The new budget, which the state is supposed to adopt by April 1, would have $3 billion less total spending than the current budget, if Cuomo’s spending targets are hit.

Tax Cuts, Tax Cap

Cuomo also has pledged not to impose any new taxes and in fact says he favors letting a surcharge on individuals who earn more than $200,000 a year expire as scheduled this coming December. He also wants a 2 percent property tax cap, with exceptions for New York City and some other cities. The state Senate passed the measure on February 2 by a 45-17 vote.

Many powerful interests are pressuring the governor to continue the state’s high tax and spending policies, but so far State Assembly Minority Leader Brian Kolb (R-Canandaigua) likes what he sees and hears from Cuomo, as do many taxpayer and business groups.

“My first reaction is I support what he is trying to do, which is reduce real spending,” said Kolb. “This [proposed] budget is about $3 billion less than the current budget. He’s saying the so-called millionaire’s tax, which really isn’t a millionaire’s tax but a tax on $200,000 or higher income, should go away. That’s good too.

“The devil is in the details. Reducing education and Medicaid spending has to be done, because education and Medicaid are the two largest pieces of the budget,” Kolb noted.

Few Medicaid Details

The governor’s proposal lays out how it would affect specific local school districts. There’s less specificity regarding how Medicaid spending would come down, which has Kolb and others wondering.

“He’s set a spending number [for Medicaid] but no detail on what that will look like. Can he get there with details on what those cuts will look like by April 1, when the budget hopefully will be adopted? I don’t know, but the intent is good.”

The Business Council of New York State (BCNYS) also likes what Cuomo has presented.

The Right Direction

“This budget puts forward a long-term, sustainable approach to move New York in the right direction,” said Heather Bricetti, acting president and CEO of the BCNYS. “It puts an end to the gimmicks and short-term fixes that simply mask the underlying problem of government’s overspending.

“The Business Council has said repeatedly that New York cannot tax its way out of this deficit,” Bricetti added. “Governors and legislatures have tried that for years, and the crisis has grown worse. We realize difficult decisions will be made in this budget. But if we can put the state’s fiscal house in order we can create an environment that will lead to economic development and create jobs for all New Yorkers.”

Not all are happy with the governor’s proposal.

Bloomberg’s Complaint

New York City Mayor Michael Bloomberg told members of a joint legislative committee the city would lose about $2.1 billion if the lawmakers don’t change Cuomo’s budget.

Bloomberg was projecting a $2.4 billion deficit in New York City’s next budget of $67 billion, which takes effect July 1. Cutbacks on state revenue-sharing with the city, and other changes such as reduced state aid to the city’s schools, would add to that deficit, Bloomberg said.

Cuomo’s budget proposal includes layoffs of thousands of government workers, which does not please government worker unions. One aspect of the plan would consolidate some state prisons, which prompted Donn Rowe, president of the New York State Correctional Officers and Police Benevolent Association, to tell a joint legislative budget committee that closing some prisons could cause a “catastrophe.”

“If enacted, these closures will represent a clear and present danger to our prison system and the men and women who serve in it,” Rowe said in his prepared remarks.

Haircuts, Not Amputations

E.J. McMahon, a senior fellow for Tax and Budgetary Studies at the Manhattan Institute, posted on the institute’s The Torch blog: “The budget calls for haircuts, not amputations. Not that it will be easy. (Ever try to cut the hair of a squirming, screaming two year old?)

“Giving Cuomo the benefit of a doubt, keeping the reform details vague for as long as possible is a way to keep potential adversaries guessing while keeping options open,” McMahon continued. “On the Medicaid side, in particular, Cuomo has armed himself with appropriations language that would give the governor discretion to cut the budget down to size if the ‘team’ fails to agree on another way to get there.”

Kolb said New York’s budget situation has grown so bad Cuomo has no choice but to cut spending and hold down taxes.

“The only thing that kept spending alive the last two years was federal stimulus money that was spent,” Kolb said. “That money only postponed dealing with fiscal realities. Democrats who were in power increased taxes and fees by $10 billion over two years. There was no choice for the governor but to reverse course to have any credibility. The numbers are so bad he couldn’t do anything else.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
Unions Lost Nearly 10 Percent of Members in 2010

By David Denholm

The U.S. Bureau of Labor Statistics has issued its annual report on union membership in the United States, and it’s not good news for the unions.

Union membership fell by almost 10 percent in a single year, from 15,327,000 in 2009 to 14,715,000 in 2010, a loss of 612,000 members.

More than half of that decline was in the private sector, where union membership fell by 339,000, from 7.43 million in 2009 to 7.09 million in 2010. The decline in union membership was accompanied by a decline of 317,000 in employment on private payrolls.

Unlike 2009, when public-sector union membership also declined, in this case by 273,000 members. There was a decline in public-sector union density of 1.2 percentage points, from 37.4 percent in 2009 to 36.2 percent in 2010. In 2010, union membership on government payrolls remained above 50 percent of all union members, despite only about one in six jobs being in government.

Each segment of public employment demonstrated different characteristics in changes in employment, union membership, and union density in 2010.

Federal government employment increased by 76,000 while union membership declined by 21,000, moving union density in federal employment down from 28.0 percent to 26.8 percent, a decline of 1.2 percentage points.

At the state government level, employment increased by 34,000 while union membership declined by 56,000. As a consequence, union density dropped from 32.2 to 31.1, a decline of 1.1 percentage points.

Big Local Government Declines

The big changes in the public sector took place at the local government level, where employment declined by 209,000 and union membership declined by 197,000, resulting in a 1.0 percent decline in density.

Unions experienced their greatest percent declines in Michigan (-2.3), New Jersey (-2.2), Massachusetts (-2.1), Illinois (-2.0), and Hawaii (-1.7), all states with relatively high levels of unionism.

The states experiencing the greatest percent growth of union density were West Virginia (+0.9), Idaho (+0.8), Alaska (+0.6), Kansas (+0.6) and New Mexico (+0.6), a mixed bag of states as far as union density is concerned.

These figures represent total changes in union density and don’t reflect a private sector/public sector breakdown. A state-by-state report on the rise and fall of public-sector unionism will be published in the next edition of Budget & Tax News.

The BLS report is based on the Current Population Survey, which consists of 60,000 interviews each month and is regarded as extremely accurate. When applied to a subgroup of the workforce such as the public sector or a low-population state, the results can vary widely from year to year.

David Denholm (david@psrf.org) is president of the Public Service Research Foundation, a not-for-profit research and education organization that studies labor unions and union influence on public policy.
A new analysis finds the number of federal aid programs for state and local governments totaled 1,122 in 2010, more than triple the number 25 years ago. A few dozen of the new programs were enacted temporarily, ... but the great majority were enacted as permanent programs. The 2010 health care legislation was the source of about two dozen aid programs ...”

By Chris Edwards

The federal government has a large and growing presence in state and local policy activities. This rising intervention has been facilitated by “grants-in-aid,” programs that combine federal subsidies with top-down regulations micromanaging state and local affairs.

A new analysis finds the number of federal aid programs for state and local governments totaled 1,122 in 2010, more than triple the number 25 years ago. Some of the most expensive programs are in the areas of education, housing, health care, and transportation.

Federal lawmakers would better serve the nation by focusing on national issues instead of trying to fix potholes and run schools. In addition, aid ties up the states in bureaucratic knots and reduces state policy innovation. The $646 billion aid system should be cut.

Federal Powers ‘Few and Defined’
The Constitution assigns the federal government specific limited power and leaves most government functions to the states. To ensure people understood the limits on federal power, the Framers added the Constitution’s Tenth Amendment: “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”

The amendment embodies federalism, the idea that federal and state governments have separate policy areas and proper federal activities are “few and defined,” as James Madison, who wrote the Constitution, said.

President Ronald Reagan noted in a 1987 executive order, “Federalism is rooted in the knowledge that our political liberties are best assured by limiting the size and scope of the national government.” Sadly, policymakers have ignored federalism in recent decades as Congress has undertaken many activities through grants-in-aid that it has no legal or practical reason to be involved in.

Rapid Expansion Since 1960s

In the nineteenth century, federal aid to the states was rare outside of land grants. The number of aid programs began growing slowly and steadily in the first half of the twentieth century.

The big change came in the 1960s. The aid system grew dramatically under President Lyndon Johnson. He added hundreds of programs for housing, urban renewal, education, and other local activities. Policymakers at the time had great optimism that federal experts could solve virtually any local problem.

That optimism did not last. President Richard Nixon lambasted “the idea that a bureaucratic elite in Washington knows best what is best for people everywhere.” Then President Jimmy Carter proposed a “concentrated attack on red tape and confusion in the federal grant-in-aid system.”

President Reagan criticized the “confused mess” of federal grants, and he had some success at cutting them.

From 653 to 1,122 in 10 Years

Unfortunately, Reagan’s efforts to trim the federal aid empire were reversed after he left office, particularly under Presidents George W. Bush and Barack Obama. The number of aid programs has soared from 653 in 2000 to 1,122 in 2010, based on my count of programs in the Catalog of Federal Domestic Assistance.

A few dozen of the new programs were enacted temporarily under the 2009 “stimulus” legislation, but the great majority were enacted as permanent programs. The 2010 health care legislation was the source of about two dozen aid programs in the new program count.

Other legislation of recent years added a wide range of new programs, such as specialty crop block grants, beginning farmer and rancher development grants, second-chance prisoner reentry initiative grants, clean fuel vehicle purchase grants, and America’s marine highway grants.

Federal spending on these aid programs was $654 billion in fiscal 2010 and $646 billion in fiscal 2011, double the fiscal 2001 cost.

Roundabout, Unaccountable

The federal aid system is a roundabout funding system for state and local activities that undermines attempts to have a more frugal and accountable government. Under the aid system, federal politicians spend money on a wide range of special-interest activities and then blame other levels of government when policy failures occur.

The aid system does not deliver efficient, high-quality public services to the nation’s citizens. It delivers bureaucracy, overspending, and regulatory micromanagement from Washington. It also creates a political tug of war between the states over funding.

By contrast, when spending and taxing decisions are made together at the state and local levels, policy tradeoffs are likely to better reflect the local preferences of citizens.

The federal aid system should be scaled back and ultimately abolished. The explosive growth in the aid system is turning once proud and diverse states into little more than regional subdivisions of an all-powerful national government.

And with huge and ongoing federal deficits, there is simply no room in the budget for state and local activities. Congress should revive federalism and begin terminating its huge catalog of 1,122 aid programs.

Federal aid-to-state programs undermine constitutional federalism, and they don’t make any practical sense. The theory behind aid is that the federal government can efficiently solve local problems, but decades of experience have shown it cannot. Following are eight reasons to terminate federal aid-to-state programs.

1. **No Magical Source of Federal Funds.**
   Aid supporters bemoan a “lack of resources” at the state and local level and believe Uncle Sam has endlessly deep pockets to help them out. But he does not: Every dollar of federal aid sent to the states is ultimately taken from taxpayers who live in the 50 states.

   It’s true the federal government has a greater ability to run deficits than state governments, but that’s an argument against the aid system. By pushing government funding up to the federal level, the aid system has tilted American government further toward unsustainable debt financing.

2. **Aid Spurs Overspending.**
   Aid programs spur overspending by every level of government. Politicians at every level enjoy expanding programs to satisfy special-interest groups, but with aid programs they rely on other levels of government to pay part of the cost. That gives them the political benefits of more spending while paying only part of the political cost of raising taxes.

   Aid programs often contain rules that encourage overspending. Some programs have a “matching” feature that rewards state politicians with more federal funds when they expand a program. Other programs have a “maintenance of effort” feature that prevents states from cutting program costs.

3. **Aid Allocation Is Inefficient.**
   The myth of aid is that impartial federal government experts can rationally distribute funding to the most needy local communities and activities. But the aid system has never worked that way. A 1940 news report lamented:

   “The grants-in-aid system in the United States has developed in a haphazard fashion. ‘Particular services have been singled out for subsidy at the behest of pressure groups.’ It’s the same today. Politics substantially determines the activities and congressional districts that receive the most aid. For example, states with the greatest need for highway funding but weak members of Congress may get less federal aid than less-needy states.

4. **Aid Reduces Innovation.**
   Federal aid reduces state policy innovation because it comes with top-down rules that encourage or mandate policy conformity. States and local governments can’t be “laboratories of democracy” if they operate under one-size-fits-all rules written in Washington.

   The former 55-mile-per-hour national speed limit was the classic example of a federal mandate that ignored the states’ diverse needs. More recently, the No Child Left Behind education law extended federal regulatory tentacles into local classrooms.

5. **Aid Is Intensely Bureaucratic.**
   The aid system imposes a huge paperwork burden on all three levels of government. Federal agencies that hand out state aid consume roughly 10 percent of the value of the aid in administration. That money stays in Washington.

   For state and local governments, each of the 1,122 aid programs involves tasks such as filling out applications, filing reports, auditing, litigation, and regulatory compliance. For each program, federal rules can run from dozens to thousands of pages in length.

6. **Aid Distracts Federal Politicians.**
   The huge scope of the aid system means federal politicians spend much of their time on local issues. Rather than focusing on truly national issues, such as defense and security, they are busy steering funds to their districts for local projects.

   President Calvin Coolidge was prescient in arguing state aid should be cut because it was “encumbering the national government beyond its wisdom to comprehend, or its ability to administer” its proper roles.

7. **Aid Breeds Irresponsibility.**
   The three levels of government would work more efficiently if they resembled a tidy layer cake with separate functions. Instead, they are like a marble cake with jumbled lines of accountability, and that makes it difficult for citizens to know who is in charge of each policy activity and outcome. When every government has a hand in an activity, no government is responsible, as we saw, for example, in the disastrous lead-up to, and aftermath of, Hurricane Katrina in New Orleans.

8. **Common Woes Aren’t Necessarily Federal.**
   Politicians and special-interest groups often claim that certain state, local, and private activities need federal aid because they are “national” priorities. The Bush administration, for example, claimed a “compelling national interest” in providing federal aid for K-12 schools.

   But the schools are a “national interest” only in the sense that many families are interested in them.

   In Canada, families are also interested in K-12 education. But in that nation, the federal government is generally not involved in the schools, and yet their kids do much better on international tests than do U.S. kids.

   Thus, the desire of members of Congress to try to solve state, local, and private problems needs to be tempered with an understanding that federal involvement is usually counterproductive.

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"Politicians at every level enjoy expanding programs to satisfy special-interest groups, but with aid programs they rely on other levels of government to pay part of the cost."

"States and local governments can’t be ‘laboratories of democracy’ if they operate under one-size-fits-all rules written in Washington."
Florida Governor Strives to Cut Taxes, Spending

By Tanja Clendinen

Nothing is business as usual with Florida’s new Republican governor, Rick Scott.

From selling state airplanes— “not a core function of government”— to the site chosen to unveil his proposed budget (a church in a small Central Florida town), this veteran businessman and rookie politician has from day one eschewed political and government bureaucracies and embraced free-market ideals.

In the first minutes of his inaugural address, Scott said, “Government has no resources of its own. Government can only give to us what it has previously taken from us—minus a huge cut for the government middleman. A lean and limited government has a role to play, but prosperity comes from the private sector.”

Tax and Spending Cuts

This philosophy is mirrored in Scott’s budget proposal. With Florida facing a $3.6 billion deficit and 1.1 million unemployed, he has proposed a budget that cuts spending and taxes and reduces regulatory burdens, with the goals of shrinking government, creating private-sector jobs, restarting economic growth, and holding government accountable.

Scott’s proposed budget has now dropped into the legislative hopper. State Sen. Don Gaetz (R-Destin) said, “We need to be sure the public policy choices we make are held to a rigorous return-on-investment standard.”

State Senate President Mike Haridopolos (R-Melbourne) has said the Senate is “dedicated to working with the governor … to keep taxes low and live within our means.”

On the House side, Scott may face a slightly steeper climb. House Appropriations Chairman Denise Grimsley (R-Lake Placid) said she plans to “closely examine the governor’s budget as we work to address the many difficult decisions required during the appropriations process.”

Fiscally conservative business groups and policy organizations strongly support the proposed budget, viewing it as “a generational opportunity to completely reset [Florida’s] economy,” according to Mark Wilson, president of the Florida Chamber of Commerce.

‘Opportunity for Ingenuity’

Robert McClure, president of the James Madison Institute in Tallahassee, called the budget “an opportunity for American ingenuity and the free market to flourish.”

Critics, however, have been quoted in various news publications calling the budget “retreaded voodoo economics” and “a jobs-killing budget.”

New Proposals

Scott is attacking the problem on several fronts. In addition to the usual remedies—streamline state agencies, consolidate overlapping functions, eliminate wasteful spending, etc.—Scott’s budget also includes these items:

• Reduce taxes by $4.1 billion over two years ($1.7 billion in 2011-12) including property taxes, fees, unemployment compensation taxes, and the corporate income tax (5.5 percent to 3 percent with a complete phase-out by 2018).
• Eliminate more than 8,600 state jobs through attrition, returning job functions to local governments, privatization, etc.
• Spend $800 million over two years ($300 million 2011-12) for economic development projects and incentives to develop private-sector jobs and business growth.
• Freeze new rules and regulations (more than 900 pending) until reviewed.

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“Often government budgets seem to operate on ‘automatic pilot’— spending follows revenue, up or down. Gov. Scott [left] has introduced a different approach: matching state spending to state priorities.”

ROBERT MCCCLURE, PRESIDENT JAMES MADISON INSTITUTE

Florida state Sen. Don Gaetz (left) said of Gov. Rick Scott’s proposed budget, “We need to be sure the public policy choices we make are held to a rigorous return-on-investment standard.” State Senate President Mike Haridopolos (right) says the Senate will work with Scott.

• Redirect selected trust fund monies into general revenue to allow more flexibility in the budgeting process.
• Decrease education funding by $3 billion by not replacing expiring federal stimulus with state revenue.
• Move Medicaid recipients into managed-care plans.
• Require all existing members of the Florida Retirement System to contribute 5 percent of their earnings (currently employer contributions only) to retirement and all new employees to participate in a 401(k)-type defined contribution plan.

‘Matching Spending and Priorities’

Scott’s proposed budget “challenges a state Legislature that claims to be fiscally conservative to match his fiscal conserva-
tism,” said Randall Holcombe, a professor of economics at Florida State University and senior fellow at the James Madison Institute. “More business-friendly states have more economic growth than less business-friendly states.”

McClure noted, “Often government budgets seem to operate on ‘automatic pilot’—spending follows revenue, up or down. Gov. Scott has introduced a different approach: matching state spending to state priorities. Undoubtedly reflecting his background in business, this refreshing new approach could well serve as a model for other officials charged with the responsibility of crafting budgets that consume taxpayers’ hard-earned money.”

Several of Scott’s proposals, such as Medicaid and public pension reform, are being watched nationally as possible models for other states.

Tanja R. Clendinen (tanja@jamesmadison.org) is director of communications for the James Madison Institute in Tallahassee, Florida.
Average State and Local Sales Taxes Revealed, Ranked

By Kail Padgitt

Retail sales taxes are correctly described in textbooks as “transparent” taxes—citizens are aware of how much they pay and when.

On any particular purchase, an individual can easily identify the amount and percentage paid in sales tax because it’s right there on the receipt. As a result, even people with no interest in taxation have an idea of the general sales tax rate where they live.

However, in two-thirds of the country local-option sales taxes make it somewhat more difficult for citizens to know what the rates are, and transparency suffers. Thirty-three states allow localities to charge a local sales tax. The rates vary from jurisdiction to jurisdiction, and here we average those in a way that gives an accurate impression of the sales tax in each state. (See table.)

Combined Rates Vary Widely

Five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—do without a general statewide sales tax. Four of them prohibit local-option taxes as well, so they have a combined rate of zero. Alaska allows the local option, notably Juneau’s city sales tax rate of 5 percent, and the weighted average of the local rates is 1.1 percent, so the combined rate is 1.1 percent.

Among states with a state-level general sales tax, the five with the lowest combined rates are Hawaii (4.35 percent), Maine (5 percent), Virginia (5 percent), South Dakota (5.22 percent), and Wyoming (5.3 percent). The five states with the highest combined state-local rates are Tennessee (9.44 percent), California (9.08 percent), Arizona (9.01 percent), Louisiana (8.69 percent), and Washington (8.64 percent).

State Rates

California has the highest state-level rate of 8.25 percent, including a mandatory 1 percent tax collected by the state and distributed to local governments. (Some sources describe California’s statewide sales tax as one percentage point lower for this reason.) Five states—Indiana, Mississippi, New Jersey, Rhode Island, and Tennessee—tie for the second-highest rate of 7 percent.

The lowest non-zero state-level sales tax is Colorado’s 2.9 percent rate. Next lowest is 4.0 percent, levied in seven states: Alabama, Georgia, Hawaii, Louisiana, New York, South Dakota, and Wyoming.

Local Rates

Seventeen states have no local-option general sales tax, but in the 33 states that do, local rates can be substantial, larger than the state-level rate in five states. Alaska has a 1.1 percent average local rate compared to a zero rate at the state level.

Colorado’s average local rate is 4.08 percent on top of a state rate of 2.9 percent. Louisiana, New York, and Alabama have all state rates of 4.0 percent, and average local rates are higher: 4.69 percent in Louisiana, 4.52 percent in New York, and 4.03 percent in Alabama.

Other states with higher average local sales tax rates are Oklahoma (3.83 percent) and Missouri (3.237 percent). The states with the lowest non-zero local rates are Idaho (0.03 percent), Minnesota (0.265 percent), Pennsylvania (0.34 percent), Hawaii (0.35 percent), and Wisconsin (0.42 percent).

Methodology

General sales tax rates are widely available on state government Web sites and in many publications, including the Tax Foundation’s annual pocket-sized booklet of state tax rate comparisons, Facts & Figures: How Does Your State Compare?

Sales tax rates for counties and cities are reported by five-digit zip code from the Sales Tax Clearinghouse. Localities may contain all or part of many zip code areas, and there are at least 40,000 five-digit zip code areas overlapping the more than 8,000 localities in the United States, so some inexactitude creeps in during the conversion from zip code to locality.

For the table we calculated an unweighted average of the zip code rates within each locality. We then weighted this at the county level by population using Census Bureau data.

Kail Padgitt (padgitt@taxfoundation.org) is staff economist at the Tax Foundation, a nonpartisan tax research group in Washington, DC. Used with permission from Tax Foundation Fiscal Fact No. 258.

Source: Tax Foundation calculations; state revenue departments; Sales Tax Clearinghouse.

Note: Some states levy gross receipts taxes in addition to sales taxes.

(a) Three states levy a mandatory local addition to sales tax at the state level: California (1%), Utah (1.25%), and Virginia (1%). We include this in their state sales tax.

(b) Hawaii and New Mexico have broad sales taxes that also apply to many services.

(c) California’s state sales tax is scheduled to drop 1 percentage point on July 1, 2011.

(d) Due to data limitations, this table does not include sales taxes in local resort areas in Montana.
National Taxpayer Advocate Nina E. Olson recently joined the chorus of voices calling for a major revamp of the nation's tax laws.

“There has been near universal agreement for years that the tax code is broken and needs to be fixed,” Olson said in her 2010 annual report to Congress, released in January. “Yet no broad-based attempt to reform the tax code has been made. This report documents the burdens the tax code imposes on taxpayers and explores why many taxpayers may nevertheless feel wedded to key aspects of the current system, undermining efforts at reform.”

**Huge Word-Count Increase**

Olson said the tax code nearly tripled in size during the past decade—to 3.8 million words in February 2010 from 1.4 million in 2001. She estimated Americans spent 6.1 billion hours preparing their returns each year—the equivalent of 3 million employees working full-time. By comparison, the federal payroll has 2.1 million full-time workers.

Olson reported taxpayers “find return preparation so overwhelming that about 60 percent now pay preparers to do it for them. An additional 29 percent use tax software, with leading software packages costing $50 or more. IRS researchers recently estimated that the annual monetary tax compliance burden of the median individual taxpayer (as measured by income) is $258 billion,” Olson reported.

**Simplification Trade-Offs**

“It is sometimes suggested that taxpayers are looking for a free lunch—that they want to see lower tax rates but keep their tax breaks and retain their government benefits, all while balancing the budget,” Olson wrote. “But this perspective overlooks the fact that federal tax and spending policies are complex, and most people don’t have the time to study these policies in detail. Our aim is to improve public knowledge of the trade-offs involved and to help policymakers and the taxpaying public conduct a more informed conversation about tax reform alternatives.”

Olson’s report states if tax rates are to be substantially lowered, many existing tax breaks will have to be eliminated immediately and others will have to be phased out. She said she believes most taxpayers would accept lower tax rates in exchange for a simpler system.

**‘System Fundamentally Flawed’**

“The AMT is a secondary tax system that is an admission that our primary income tax system is fundamentally flawed,” Pilla said.

In theory the AMT is designed to ensure everyone pays at least some minimum amount of income tax. However, whereas the regular tax brackets were indexed for inflation beginning in 1986, such adjustments where never made for the AMT, meaning hundreds of thousands more taxpayers end up in the AMT system every year. Most don’t know it until they receive an IRS notice after filing their returns, according to Pilla.

Eliminating the AMT would cut a significant amount of complexity from the tax code, Pilla said.
If we do not reform my Social Security—the Baby Boomer generation’s Social Security—then it’s over.”

DOUGLAS HOLTZ-EAKIN, FORMER DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Defuse ‘Ticking Time Bomb,’ Entitlement Experts Urge

By Doug Kellogg

With a new Congress sworn in and President Barack Obama having submitted his budget for the next fiscal year, the nation’s focus must turn to solving the entitlement crisis that dominates more than 80 percent of the federal budget—or face fiscal ruin.

So says Rep. Devin Nunes (R-CA), Cato Institute Senior Fellow Dan Mitchell, former Congressional Budget Office Director and current American Action Forum President Douglas Holtz-Eakin, and Maya MacGuineas, president of the Committee for a Responsible Federal Budget. They delivered that message at the National Taxpayers Union Foundation’s (NTUF) special event, “Moving Forward on Entitlements: Practical Steps to Reform,” at the Conservative Political Action Conference (CPAC) on February 11.

NTUF Executive Vice President Pete Sepp moderated a session that featured these four experts as panelists. The overriding theme was that America’s entitlement commitments are so vast and mismanaged that they will crush the American economy if they are not reformed.

‘Crisis Is Here’

The Wall Street Journal’s Stephen Moore set the stage with his opening remarks, noting, “For years, we’ve been talking about the coming crisis. My message to you is the crisis is here.”

He stressed the generational divide on entitlements by pointing out a proposal to move from Social Security’s current benefit structure to one that includes a blend with personal retirement accounts. The foundations of our economic success are generally well received by younger Americans but opposed by older ones.

He illustrated the sheer immensity of the $3.8 trillion federal budget by presenting an analogy he uses with his son: “How many seasons would it take for LeBron James to earn one trillion dollars at his current annual income? Twenty-five thousand seasons!”

James last year joined the Miami Heat of the National Basketball Association after having spent seven years as a star player for the Cleveland Cavaliers. Moore’s analogy referred to James’ first few seasons, when he was paid about $4 million a year. His salary with the Miami Heat is reportedly $14.5 million.

‘Reform, or It’s Over’

Holtz-Eakin, the first panelist to speak, said, “If we do not reform my Social Security—the Baby Boomer generation’s Social Security—then it’s over.”

Holtz-Eakin argued the fiscal stability of the nation is at stake if we do not contend with the threat of unsustainable entitlements.

“This is literally a plan and roadmap to our ruin,” he said. “It will endanger the foundations of our economic success and lead to an economy weaker than we inherited.”

He referred to Obama’s new budget proposal as a “non-serious” effort to tackle the budgetary problems because it fails to address entitlement reform.

‘Problem Is Spending’

“Our problem is not deficits and debt; our problem is spending,” said Mitchell. He said the core challenge is reducing federal spending below future revenues—a straightforward proposition but one that will require entitlement reform, surmounting political challenges, and overcoming baseline budgeting to become a reality.

Mitchell also noted the positive effect on health costs that would come from reconnecting patients and providers: “We do have a couple of areas in our health care system where markets are allowed to operate [such as laser eye surgery]. … What do we find in markets where people pay out of pocket? We find that costs are actually less than the CPI (Consumer Price Index).”

He added, “Whether you properly understand that government spending is what we need to fix, or whether you are mistakenly focusing on the symptoms—deficits and debt—it doesn’t matter because the right policy in either case is restraining the growth of spending.”

‘Make People Pay for Everything’

MacGuineas said she sees a 10-year window in which to reform entitlements before the budget is broken beyond repair. She emphasized the borrowing must end: “One of the best ways to control spending is to make people pay for everything you’re spending at the government level; if you allow yourself to borrow, it feels free.”

MacGuineas said Congress’s narrow emphasis so far on restraining discretionary spending means lawmakers are dealing with only 12 percent of the budget.

“The bulk of our budget does not have a budget. That is a preposterous starting point. … Social Security, Medicare, and Medicaid need to have budgets.”

MAYA MACGUINEAS, PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

‘Exploited for Raw Political Power’

“The politics of entitlements have been going on since before Medicare was enacted. … President Johnson and proponents knew it could be exploited for raw political power,” Nunes said.

Nunes has cosponsored the Roadmap for America’s Future, a comprehensive fiscal plan written by House Budget Committee Chairman Paul Ryan (R-WI) that recommends long-term expenditure, tax, and entitlement program reforms. In his CPAC presentation Nunes also advocated free-market energy policies and increased government transparency to help tackle the major budgetary challenges that face the nation.

“For years, we’ve been talking about the coming crisis. My message to you is the crisis is here.”

—STEPHEN MOORE, THE WALL STREET JOURNAL

“The politics of entitlements have been going on since before Medicare was enacted. … President Johnson and proponents knew it could be exploited for raw political power.”

—DEVIN NUNES (R-CA)

“The bulk of our budget does not have a budget. That is a preposterous starting point. … Social Security, Medicare, and Medicaid need to have budgets.”

—MAYA MACGUINEAS (PRESIDENT, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET)
Priority-Based Budgeting Called Fundamental Reform

By Jonathan Williams

The American Legislative Exchange Council’s (ALEC) new State Budget Reform Toolkit advances a set of budget reform and procurement best practices, called priority-based budgeting, to guide state policymakers as they work to solve current budget shortfalls.

Eight nationally acclaimed authors provide more than 20 recommendations for legislators looking to modernize state budgeting, improve budget transparency, control cost, and improve government efficiency. The “toolkit” will assist legislators in prioritizing and more efficiently delivering core government services.

The need to reform state budgeting is more vital than ever. As federal stimulus funds recede, states will grapple with even larger budget gaps. The “business-as-usual” budgeting approach of raiding non-general fund accounts and using as-usual” budgeting approach of raiding non-general fund accounts and using

Avoids Tax Hikes

States need innovative budgeting strategies to address these new economic challenges—without resorting to economically damaging tax increases. As

ALEC’s Rich States, Poor States publication points out, tax increases come with a high cost: the erosion of economic competitiveness.

The State Budget Reform Toolkit is designed to help legislators address the serious financial crises in the states by changing their budgetary system from the conventional input system, which is clearly a failed policy model, to one focused on outcomes.

Sets Priority-Based Budgets

The new budgetary system is called priority-based budgeting. To make the shift to this form of budgeting, state officials and citizens determine the core functions of government first before working on the budget. This may seem like an elementary step, but it is seldom taken before legislative appropriations are made.

To gain control of a state budget, the following questions should be answered:

1. What is the role of government?
2. What are the essential services the government must provide to fulfill its purpose?
3. How will we know if government is doing a good job?
4. What should all of this cost?
5. When cuts must be made, how will they be properly prioritized?

Focus on Core Functions

Only by carefully considering the proper role of government can legislators and governors effectively protect individual rights while providing essential services to taxpayers in an efficient, cost-effective manner. Great savings can be achieved if legislators and agencies focus on the core functions of government instead of wasting time determining how a nonessential function can be better performed.

In 2003, Washington state implemented priority-based budgeting to eliminate a budget deficit of $2.4 billion without raising taxes. Had the traditional budgeting system been used, legislators would have started with the baseline budget and focused on cutting programs or raising taxes until the general fund matched the forecasted revenue.

Jonathan Williams (jwilliams@alec.org) is director of the Tax and Fiscal Policy Task Force at the American Legislative Exchange Council.

INTERNET INFO

State Budget Reform Toolkit, American Legislative Exchange Council:
http://www.alec.org/toolkit

Rich States, Poor States: ALEC-Laffer State Economic Competitiveness

Index: http://www.alec.org/AM/Template.cfm?Section=Rich_States_Poor_States&Template=/CM/HTMLDisplay.cfm&ContentID=14351

The Patriot’s Toolbox

On February 19, 2009, CNBC commentator Rick Santelli stood on the trading floor of the Chicago Board of Trade and called for a “new tea party” to protest out-of-control spending by politicians in Washington. Little did he know that his words would become the rallying call for millions of Americans, many of them getting involved in politics for the very first time.

The Patriot’s Toolbox gives the new patriots of the Tea Party movement the intellectual ammunition they need to take their country back! The book consists of eight chapters, each devoted to presenting ten principles for free-market reform in clear and precise English.

The Heartland Institute hopes to put hundreds of thousands of copies of The Patriot’s Toolbox into the hands of grassroots activists in the coming months. We need your help!

Visit www.heartland.org to download a free PDF version of The Patriot’s Toolbox and learn how you can help get this information into the hands of others.

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Exactly What the Tea Party Needs Right Now!
More Spending, Taxes, Deficits: The Obama Budget

By Steve Stanek

President Barack Obama’s proposed budget calling for more than $3.7 trillion of spending—including deficit spending of $1.65 trillion—also projects $1.1 trillion of deficit spending the following year, which would give the nation four consecutive years of budget deficits exceeding $1 trillion annually. No budget deficit had ever come close to $1 trillion until Obama took office in 2009.

The budget has critics aplenty, many of whom point out it fails to propose any substantive reforms to mandatory entitlement spending programs such as Medicare, Medicaid, and Social Security, costs of which will keep climbing as the Baby Boomers age.

The budget proposal does have strong support, including from government workers’ unions, environmental groups, and others who favor continued high levels of government spending.

Meanwhile, Republicans in Congress are wrangling over their own budget proposal, with newcomers who had campaigned on pledges to be more fiscally responsible demanding deeper budget cuts than some Republican Party establishment lawmakers are willing to endorse.

Increases in Real Spending

“Most of the so-called cuts [in President Obama’s budget] are [in comparison with] last year’s projected budget for 2012, but still represent an increase in spending,” noted Iain Murray, director of the Center for Economic Freedom at the Competitive Enterprise Institute.

“Take the Commerce Department, for instance,” Murray continued. “Once you discount the once-a-decade census, the department’s discretionary budget actually increases by $1 billion, compared with the advertised $5 billion decrease. Similarly, the State Department budget decreases compared with the projected budget from last year, but increases compared with actual spending in 2010.”

Murray added, “What we see in this budget is a government where spending is out of control, rather than a responsible government cutting back to stay within its means.”

Chris Edwards, director of tax policy studies for the Cato Institute, noted in an article for National Review Online, “Last year, Obama proposed 2012 discretionary outlays of $1.30 trillion. This year, Obama proposed 2012 discretionary outlays of $1.34 trillion.”

“Most of the so-called cuts [in President Obama’s budget] are [in comparison with] last year’s projected budget for 2012, but still represent an increase in spending.”

IAIN MURRAY, DIRECTOR CENTER FOR ECONOMIC FREEDOM

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New, Higher Taxes

“The problem is that this budget, like the previous one, grounds most of the deficit reduction in revenue increases,” said Veronique de Rugy, a senior fellow at the Mercatus Center at George Mason University. “In this case, spending would go down by $90 billion and revenue would increase by $453 billion between this year and next year. However, Obama also would rely heavily on new taxes, to a degree unacknowledged by administration officials in recent days. His budget request calls for well over $1.6 trillion in fresh revenue over the next decade, much of it through higher taxes on the wealthy and businesses.

“That’s a risky bet, considering that the president doesn’t have much control over how people react to tax increases,” de Rugy added. “He can’t stop taxpayers from reacting to a tax increase by working less, hiding assets, hiring fewer employees, and sitting on their capital instead of investing it.”

Among other things, the Obama budget proposal directs billions of additional dollars to alternative energy projects, high-speed rail, and many social services, spending that has constituencies of supporters.

Support from Nurses

“When it’s heartening to see the Obama administration continues to recognize the invaluable contribution that nurses make in the delivery of care,” said American Nurses Association President Karen A. Daley in a statement.

“This proposed budget represents a substantial commitment to addressing the nursing shortage and ensuring access to care for all.” Daley continued. “Increased funding for Title VIII programs is vital to reducing avoidable complications associated with the nursing shortage—saving lives and reducing health care costs.”

The proposal calls for a 28 percent increase for Title VIII Nursing Workforce Development Programs that serve to recruit new nurses into the profession, promote career advancement within nursing, and allocate nurses to areas experiencing shortages.

More for Infrastructure, Education

Another supporter of higher spending is Reece Rushing, director of government reform at the Center for American Progress. “President Obama’s budget proposes to increase funding for infrastructure by $35 billion, for research and development by $3 billion, and for education by $14.2 billion (covering the Education Department and Head Start),” Rushing wrote at the center’s Web site. “Investments like these form the foundation of economic growth, now and in the future.”

Rushing added: “Yet where Obama proposes increases, House Republicans propose cuts: $8.1 billion in cuts from infrastructure, $5.5 billion from R&D, and $5.1 billion from education, not including $26.7 billion in cuts to Pell grants for low-income college students. This shortsightedness threatens our still fragile economic recovery.”

House Republicans have said they’d like to roll spending back to 2008 levels. In late February the House passed $61 billion of spending cuts, but Democrats who control the Senate have declared they will not approve the cuts.

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.
‘Life Cycle’ Budgeting Could Reduce Infrastructure Costs

By Steve Stanek

With government cost overruns becoming the norm—and notorious—scientists at the Massachusetts Institute of Technology are proposing a solution.

The examples of such cost overruns are all-too-numerous:
• Boston’s “Big Dig,” which rerouted part of Interstate 93 through a tunnel dug beneath the city and included other road work, was projected to cost $2.8 billion when announced in 1985. By the time it was finished in 2006, nearly $15 billion had been spent. In 2008 the Boston Globe reported the interest payments on the money borrowed for the project could bring the total cost to $22 billion.
• That most beloved of government agencies, the Transportation Safety Administration, told us in 2002 the costs of airport screeners to be hired would be $104 million. Within five years the cost had climbed nearly 700 percent, to $741 million. Within five years the cost had climbed nearly 700 percent, to $741 million.
• The projected cost estimate for the New York-to-New Jersey commuter rail tunnel under the Hudson River grew from $5 billion in 2005 to $8.7 billion when New Jersey Gov. Chris Christie (R) cancelled it last fall. New Jersey taxpayers could have been stuck paying for several billion dollars of cost overruns on top of that.

Better Understanding
Noting it’s common for any project run by government to end up costing far more than anyone is told at the begin-

“If we start looking deeper at these things, there’s always a better way to do something. It takes better analysis at the front end to find ways to hold down costs over the life of the investment.”

NICHOLAS SANTERO, RESEARCH SCIENTIST
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ning, Nicholas Santero argues there is a way to end these ... deceptions? ... mistakes? ... surprises? ... on many projects.

It’s a process called “life cycle” budgeting.

“There’s a lack of understanding between the actual costs of any project and the consequences of what you do,” said Santero, a research scientist at the Massachusetts Institute of Technology’s Department of Civil and Environmental Engineering. MIT has been gathering research on life cycle assessments to give government officials and citizens more accurate pictures of the true environmental, social, and financial costs of infrastructure projects.

The information is still being polished, but Santero says the preliminary research confirms what many have long suspected: Federal, state, and local governments often lowball estimates. Or they avoid analyses that consider the full impacts, so the financial, environmental, and social costs appear lower than they really are.

Life cycle assessments more thoroughly and accurately present these costs, Santero says. And they can often suggest ways to save money in the long run.

Deeper Look
“If we start looking deeper at these things, there’s always a better way to do something. It takes better analysis at the front end to find ways to hold down costs over the life of the investment,” Santero said.

“If we need to improve a bridge or expand a highway, for instance, what’s the best way to do that with the lowest cost and least environmental impact? To determine that, you have to look many years ahead.

“Many times, if we make a different decision in year zero, we may save money years out,” Santero added. “But we don’t seriously look at impacts 20 years down the road. We’re very poor at looking at the life cycles of this stuff. What to build, how to build, maintenance strategies, user costs, reconstruction, ... these and other things need to be looked at for the expected life of the infrastructure. Sometimes we might have to spend more at the start to gain in the future.”

For instance, MIT research indicates concrete pavements can lead to big vehicle fuel efficiency savings over asphalt pavements. Over the long run, concrete pavements could have lower total costs as drivers save money on fuel and less pollution goes into the air.

Broader Look
In addition to considering a longer term, life cycle assessments also look more broadly than typical assessments. Santero points out many aspects of a project often are ignored or downplayed. With the Big Dig, for instance, traffic diversions put stress on other roads and bridges not designed for such traffic. Also, traffic delays resulted in lost productivity and wasted fuel.

“In road construction, cost overruns often have a lot to do with prices of materials changing,” Santero said. “Caltrans [the California Department of Transportation] and other DOTs [departments of transportation] are trying to integrate user costs. They’re interested in user delays, how long will they need to shut down roads, and how many cars will be affected. I know there is a push to be more transparent, but there’s not a lot of knowledge about how to do this.

“Eventually, with life cycle assessments, we’ll have a triple bottom line: minimize social, economic, and environmental impacts. No one is doing that at this point. These things are tallied separately. One agency is interested in the environment, another in the financial costs. Life cycle assessment brings the social, environmental, and financial factors together.”

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