President Trump Releases First Full Budget Proposal

The proposed $4.1 trillion budget spends about the same as was spent in fiscal year 2017. It increases annual military spending by $52 billion while reducing discretionary domestic spending by about $26.7 billion.

The budget proposal forecasts lowering tax rates will spur private economic growth by 3 percent per year.

TRUMP BUDGET, p. 6

Maine Legislature Scrambles to Break Tax-Surcharge Deadlock

Despite meeting in May to break a stalemate over the state's 3 percent tax surcharge, members of Maine's Joint Standing Appropriations and Financial Affairs Committee were unable to break a deadlock that could lead to a lapse in state government operations.

Gov. Paul LePage (R) says he won't agree to sign any budget sent to him that does not contain a repeal of the surcharge, forcing lawmakers to decide between removing the surcharge and having to try to override a veto.

Top lawmakers from the majority

TAX-SURCHARGE, p. 4

By Kimberly Morin

President Donald Trump

By Hayley Sledge
At the Arthur B. Robinson Center on Climate and Environmental Policy at The Heartland Institute, we are producing the research and conducting the effective advocacy needed to help restore sound science and common sense to efforts to protect the environment.

The Center promotes pro-energy, pro-environment, and pro-jobs policies based on sound science and economics, not alarmism or ideology.

Through events, publications, social media, and government relations programs we have changed public opinion on climate change and other environmental topics. We have changed public policy not only in the United States but in other countries as well.

In 2017 and onward, we are focusing on winning the global warming war and repealing bad legislation and regulations adopted during the height of the global warming scare.

With your help, we can win the global warming war. Please contact us at 312/377-4000 or think@heartland.org, or visit our website at heartland.org/Center-Climate-Environment.

“The Heartland Institute has published the work of many excellent scientists ... [and] has taken the fight right to the enemy with aggressive and highly effective campaigns aimed at elected officials and civic and business leaders.”

ARTHUR B. ROBINSON, PH.D.
APRIL 2017

The center is named in honor of, and chaired by, Arthur B. Robinson, Ph.D., a distinguished chemist, cofounder of the Oregon Institute of Science and Medicine (OISM), and editor of the influential newsletter Access to Energy. He received a Ph.D. in chemistry from the University of California at San Diego.

The Heartland Institute is a 33-year-old national nonprofit organization based in Arlington Heights, Illinois. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our website at www.heartland.org or call 312/377-4000.
Senate Revives Bill to Allow States to Impose Online Sales Taxes

By Michael McGrady

The latest incarnation of the Marketplace Fairness Act, a bill to allow states to collect sales taxes from businesses outside their jurisdiction that sell goods and services to consumers inside their borders, is under consideration before a U.S. Senate committee.

A decision in a 1991 U.S. Supreme Court case, Quill v. North Dakota, prohibits states from requiring businesses to collect and remit sales taxes on purchases made by consumers not located in the state in which the business maintains a physical presence.

U.S. Sen. Michael Enzi (R-WY) introduced Senate Bill 976 in April, and the Senate Committee on Banking, Housing, and Urban Affairs debated the bill on May 18.

Daniel Mitchell, a senior fellow in fiscal policy for the Cato Institute, said the Marketplace Fairness Act “is a bad idea. It will lead to higher taxes because it is based on a theory, destination-based taxation, that enables higher taxes.”

State Taxes, Nationwide

Nan Swift, federal affairs manager for the National Taxpayers Union, said, “The Marketplace Fairness Act would give new taxing powers to states, extending outside their own borders.”

State governments are constitutionally prohibited from taxing nonresidents for a reason, Swift says.

“In the past, the Supreme Court has affirmed that states should only have the power to tax within their own jurisdictions,” Swift said. “This is an important restriction that ensures that those who are taxed have some accountability over those doing the taxing and recourse should there be a conflict. Without this principle in place, high-tax and high-spending states would have every incentive to go after nonresidents as a source of new revenues.”

Michael McGrady (mmcgrady@heartland.org) writes from Colorado Springs, Colorado.

New Iowa Law Tweaks Civil-Asset Forfeiture

By Joshua Paladino

Starting in July, Iowa residents will enjoy greater protection from local and state government agencies that want to seize and keep citizens’ property without criminal convictions through a process called civil-asset forfeiture.

Gov. Terry Branstad (R) in May signed into law a bill requiring law-enforcement agencies and prosecutors to obtain a criminal conviction before transferring ownership of seized assets or property to the government if the property is worth less than $5,000.

The law also requires police departments to keep records of seized property, including its value and how the police spent or disposed of the forfeited assets.

Putting Property on Trial

Lee McGrath, a senior legislative counsel at the Institute for Justice, says civil-asset forfeiture violates common sense and constitutional principles.

“Civil forfeiture is a civil litigation in which the property is charged with a crime and the person isn’t charged at all. In civil forfeiture, your guilt is irrelevant, and more importantly, your acquittal is irrelevant.”

LEE MCGRATH, SENIOR LEGISLATIVE COUNSEL, INSTITUTE FOR JUSTICE

“Civil forfeiture is a civil litigation in which the property is charged with a crime and the person isn’t charged at all. In civil forfeiture, your guilt is irrelevant, and more importantly, your acquittal is irrelevant.”

Don Racheter, president of the Public Interest Institute, says the new law makes two main changes.

“It changes the burden of proof,” Racheter said. “It used to be that the person who had their stuff seized had to prove it was theirs and that it wasn’t criminal. Now, the government has to prove that the property was used for something nefarious. The second thing is they can’t take under $5,000 without an actual conviction.”

Cites Room for Improvement

Racheter says there are three ways lawmakers can improve upon the new law.

“For first of all, the state should require a criminal conviction in all cases, not just for those under $5,000,” Racheter said. “There have been documented cases in which people have more than $5,000 for legitimate reasons.

“They ought to change where the money goes,” Racheter said. “Right now, it goes to the law-enforcement agency that seizes it. They have a tremendous conflict of interest, and they have a tremendous incentive to harass people. They ought to put the money into the general fund for the state as a whole.

“If somebody’s stuff is taken and they challenge it in court and prevail, then the government should have to pay their legal bills,” Racheter said. “In some cases, the legal bills are more than the money they’re fighting over.”

Joshua Paladino (jpaladino@hillsdale.edu) writes from Hillsdale, Michigan.
Democratic Party met with Republicans to resolve the fate of Maine’s “millionaire tax,” a 3 percent surcharge added in 2016 to the tax burdens of individuals with more than $200,000 in taxable annual income. The meeting produced no agreement on how to proceed, Portland Press-Herald staff writer Kevin Miller reported on June 2.

The state’s fiscal year ends on June 30, after which state agencies’ funding will lapse until the legislature passes a budget bill and LePage signs it into law.

**National Groups Intervened**

Liam Sigaud, a policy analyst with the Maine Heritage Policy Center, says the tax surcharge, approved by voters in November 2016, was driven by organizations with deep pockets.

“Two groups primarily drove this initiative: the Maine People’s Alliance, a progressive advocacy group with deep ties to labor unions, and the Maine Education Association, which represents public school teachers in Maine,” Sigaud said. “The effort was exceptionally well-financed, [with] the majority of the funding coming from outside of Maine. A total of $4.7 million was spent in favor of the ballot initiative, of which $2.4 million came from the National Education Association, compared to just $500,000 opposed.”

Taxes Raised, Revenue Fell

Residents were persuaded to vote “yes” on the ballot question by promises of additional revenue that has not materialized, Sigaud says.

“Fiscal analysts in the legislature estimated that the surtax would raise about $157 million annually, which would theoretically be sufficient to accomplish the supporters’ goal, which is to increase the state’s share of education funding to 55 percent,” Sigaud said. “However, preliminary revenue projections suggest that the surtax has accelerated out-migration and led to more tax avoidance. It’s still unclear what the surtax’s long-term budgetary impact will be, but it seems certain that the initial revenue estimates will have to be revised downward.”

**Alienating Professionals**

State Sen. Joel Stetkis (R-Canaan) says increasing taxes on wealthy Maine residents has not delivered the results the special-interest groups promised.

“Certain people that support tax increases think they are going to bring in more revenue,” Stetkis said. “Our first-quarter numbers came out a few weeks ago. The first quarter this was implemented, we brought in less tax revenue than the same quarter [in 2016].”

In rural Maine, which is actually three-quarters of the state, for years we have had a very difficult time attracting the kind of people that actually earn $200,000 a year: medical professionals, specialists, dentists, those types of people,” Stetkis said. “So, we have a massive shortage of professionals as it is in rural Maine, but they have a shortage in urban areas as well. We’re already seeing some of these physicians and specialists, especially those near retirement age, closing their practices and escaping.”

Kimberly Morin (kimberlyamorin@gmail.com) writes from Brentwood, New Hampshire.
By Jeff Reynolds

Three members of Congress officially called on Internal Revenue Service (IRS) Commissioner John Koskinen to answer questions about the agency’s probe of Coinbase, an online cryptocurrency exchange company, after questioning the agency’s methods and rationale for pursuing confidential user data.

In November 2016, IRS lawyers filed a motion in federal court asking Judge Jacqueline Scott Corley of the U.S. District Court for the Northern District of California to force Coinbase—a private company enabling consumers to trade bitcoins and other digital cryptocurrencies for physical dollars—to turn over customers’ personal and financial information.

In January 2017, Coinbase Chief Executive Officer Brian Armstrong wrote a blog post promising “to contest it in court to protect our customers’ privacy, at great expense.”

In May, U.S. House Committee on Ways and Means Chairman Rep. Kevin Brady (R-TX), Ways and Means Oversight Subcommittee member Rep. Vern Buchanan (R-FL), and U.S. Sen. Orrin Hatch (R-UT) sent the IRS a letter requesting answers by June 7 about why it is demanding “the mass production of records for half of a million people” by Coinbase.

“The Ways and Means Committee is in touch with the IRS on this issue and we are now receiving information in response to Chairmen Brady, Hatch, and Buchanan’s letter,” House Ways and Means Press Secretary Lauren Aronson told Budget & Tax News on June 9.

Gone Fishin’

Robert Rodrigo, legal director for the Tax Revolution Institute, describes IRS investigators’ pursuit of Coinbase’s records as a fishing expedition for which it lacks authority.

“My understanding is that the IRS is delving into an area where they haven’t even formulated a policy,” Rodrigo said. “It’s not actually regulated, nor is there a statute that addresses it. Bitcoin is a new technology.

“Of course, it’s a fishing expedition, not just for the information, but because [the IRS doesn’t] know what [it]’s doing,” Rodrigo said. “They haven’t told the world how they’re going to govern this, if at all. They really don’t have a way to go with this. And yet, they’re doing all this on subpoena, so it’s really kind of the chicken before the egg.”

IRS’ demands for Bitcoin users’ records may exceed the agency’s legal authority, Rodrigo says.

“Let’s assume they’re successful with their subpoena and they get all the information they’re looking for,” Rodrigo said. “What are they going to do with it? What policy is going to dictate what they do with it? Are they going to audit, go after, prosecute—what? Everything the IRS does is supposed to be based on statute, allegedly. The question is whether they have the authority to do this.”

Big Data Grab

William Luther, an assistant professor of economics at Kenyon College, says the IRS is asking for lots of people’s confidential information.

“They are requesting account registration information for all Coinbase account holders, including confirmed devices and payment methods; any agreements or instructions that grant third-party access or control for any account; records of all payments processed by Coinbase for merchants; and all correspondence between Coinbase and its users regarding accounts,” Luther said.

“Basically, the IRS wants any and all information that Coinbase has so that it can sift through that information for any hints of misreporting,” Luther said.
Effort to Repeal California Gas-Tax-Hike Heats Up

By Joshua Paladino

As a ballot initiative calling for a repeal of a big gas-tax hike gains momentum in California, Gov. Jerry Brown (D) criticized the campaign, calling its supporters “freeloaders.”

Brown signed Senate Bill 1 into law on April 28, increasing the state’s excise tax on gasoline to 40 cents per gallon, a 12 cent—or approximately 43 percent—hike, starting on November 1. On May 4, State Assemblyman Travis Allen (R-Huntington Beach) filed paperwork to begin collecting signatures to ask voters in 2018 to overturn the tax hike.

Speaking of the campaign, Brown told the Orange County Register on May 12, “The freeloaders—I’ve had enough of them.”

To place the question before voters in November 2018, supporters will have to collect 63,593 valid signatures by October 1.

Boccia says, are not enough to create a sustainable long-term federal budget.

“The president’s budget is slim on details, both on the tax side and on the policies that the president projects will lead to the economic feedback effects that are being used to balance the budget,” Boccia said. “Going forward, the president should warm up to more spending cuts and especially reforms in Medicare and Social Security, in order to achieve a fiscally credible budget that can bring about long-term, sustainable budget balance.”

Moderation on Infrastructure

On June 5, Trump held a ceremonial event in the White House’s East Room to celebrate a week of planned campaign events promoting proposed changes to federal infrastructure spending included in the larger budget proposal.

At the ceremony, Trump signed a “Statement of Principles” to be sent to Congress outlining his ideas for government infrastructure spending.

Ryan Bourne, the R. Evan Scharf Chair for the Public Understanding of Economics at the Cato Institute, said, “We were all kind of expecting a major push on federal infrastructure spending, and to a certain extent, Trump’s budget has alloyed some of the fears of conservatives and libertarians that there’s going to be a huge splurge. It wasn’t the huge increase in federal infrastructure spending that perhaps many were expecting.”

Framing the Issue

Congress will have to work with Trump to fill in some of the details in the president’s road-spending plan, but the framework has been established, Bourne says.

“The budget did specifically outline that that money would be used to try to harness more private and state investment,” Bourne said. “We’re not entirely clear how that will work at the moment—what incentives that will use, whether it will be tax credits or direct federal spending, or whatever—but there has been provision in the budget for $200 billion to be set aside for infrastructure investment.”

Hayley Sledge (hayley@sledges.us) writes from Dayton, Ohio.

Motor Voter Power

Allen, the lawmaker leading the repeal campaign, says Brown’s gas-tax hike insults taxpayers.

“Jerry Brown is telling Californians he’s going to raise their gas taxes to the highest they’ve ever been in history, and to top it off, he calls anyone who doesn’t want to pay the tax a ‘freeloader,’” Allen said. “When he ran in 2010, his direct quote was ‘no new taxes without voter approval.’”

Solving the Wrong Problem

Brown’s gas-tax hike will not solve the state’s traffic problems, Allen says.

“This new gas tax does not increase [road] capacity anywhere in the state,” Allen said. “It will build no new lanes of freeways. If Californians didn’t like their traffic before, they’re going to like it even less when they’re stuck in the same exact traffic and paying more for their gas.”

Road Money for Roads

David Spady, state director for the California chapter of Americans for Prosperity, says California should use existing road funds for roads only, before taking more money from taxpayers.

“California doesn’t need more money for roads; it needs laws mandating that existing gas taxes and heavy-vehicles tax revenue is only spent on roads and infrastructure,” Spady said. “The legis-
Trump Administration Starts NAFTA Renegotiation Talks

By Emma Vinton

U.S. Trade Representative Robert Lighthizer notified Congress in May of President Donald Trump’s intent to begin formal talks with Canada and Mexico to renegotiate the North American Free Trade Agreement (NAFTA).

“Negotiations can start as early as August 16, 90 days after the May 18 notification.”

Lighthizer did not provide details in the letter to lawmakers, in which he wrote, “[O]ur aim is that NAFTA be modernized to include new provisions to address intellectual property rights, regulatory practices, state-owned enterprises, services, customs procedures, sanitary and phytosanitary measures, labor, environment, and small and medium enterprises.”

Across-the-Board Benefits

Daniel Griswold, a senior research fellow and co-director of the Mercatus Center’s Program on the American Economy and Globalization, says NAFTA has been a win-win for everyone, including the United States.

“Any objective look at the record of NAFTA would conclude it has been a successful agreement,” Griswold said. “It delivered on its central purpose of encouraging more trade. Trade grew significantly, surpassing $1 trillion in three-way trade.”

Incremental Improvements

“People in all three countries could suffer major damage if NAFTA was to be undone,” Griswold said. “It has been hugely beneficial to workers and consumers, businesses, including the automobile industry. If we can maintain NAFTA with some incremental improvements, everybody will be winners.

“If the president heeds the advice of his more economically savvy advisors, I think we could end up with an improved NAFTA—we will preserve this beneficial trilateral trade investment relationship and expand the agreement to cover digital trade,” Griswold said. “Let’s hope the administration handles this in a responsible way, and the signs are there that we are moving in that direction.”

Oversold and Underwhelmed

Scott Lincicome, an adjunct scholar at the Cato Institute, says lawmakers’ failures to explain NAFTA properly to voters, both during the 1990s and today, have caused people to conclude the agreement has failed.

“The agreement was revolutionary for the early 1990s, but today, there’s no chapter on e-commerce. NAFTA is in need of an update.”

There has been a sigh of relief that the Trump administration is not doing something … like withdrawing entirely,” Lincicome said. “There is also a lot of confusion and people waiting to see.”

“NAFTA worked as we expected,” Lincicome said. “What politicians did poorly, however, is explain all of this, and they oversold the deal.”

Renegotiating NAFTA isn’t necessarily a bad idea, Lincicome says.

“NAFTA is now almost 25 years old,” Lincicome said. “The agreement was revolutionary for the early 1990s, but today, there’s no chapter on e-commerce. NAFTA is in need of an update.”

“NAFTA was a bad idea, Lincicome says.

“What politicians did poorly, however, is explain all of this, and they oversold the deal.”

Calling for Discussion

Keith Carmichael, Missouri state director for the Convention of States, says an amendment convention is a “discussion among the states.”

“If you understand the ratification process, you’re not afraid to have any discussion among the states, and you’re not afraid of a runaway convention.”

KEITH CARMICHAEL
STATE DIRECTOR
CONVENTION OF STATES-MISSOURI

The resolution is based on model legislation proposed by the Convention of States (COS), a project of Citizens for Self-Governance, a nonprofit organization advocating restoration of state and local authority.

Article V of the U.S. Constitution establishes methods for proposing and enacting amendments.

After 34 states call for an amendments convention, the gathering of commissioners selected by state lawmakers is limited to consideration of amendments requiring the federal government to enact the proposal specified by the call.

At present, 29 states have passed resolutions calling for a convention to draft a balanced budget amendment, and 12 have approved the COS resolution.

Stepping Up, Taking Charge

Kehoe says state legislators must do what lawmakers in Washington, DC are unable or unwilling to do: fix a broken federal government.

“There are many good men and women in Congress, of that there can be no doubt,” Kehoe said. “However, as a whole the Congress has not shown the inclination to act in a manner that adequately and effectively restraints the growth and authority of the federal government.”

Constitutionally restraining the federal government’s size and scope benefits everyone, including the people of Missouri, Kehoe says.

“My constituents want government to establish a framework that allows individuals and the free market to make their own decisions,” Kehoe said. “The bigger government gets, and the more expansive its role, the more it intrudes into the lives of my constituents, ultimately elbowing out individual achievement and the free market.”

Calling for Discussion

Keith Carmichael, Missouri state director for the Convention of States, says an amendment convention is a “discussion among the states.”

“If you understand the ratification process, you’re not afraid to have any discussion among the states, and you’re not afraid of a runaway convention,” Carmichael said. “Early on in the Constitutional Convention, George Mason said this process should be easy, regular, and constitutional. He’s talking about states getting together and having the conversation. What he described is basically a board meeting.”

Jeff Reynolds (jefferyreynolds@comcast.net) writes from Portland, Oregon. In addition to writing for Budget & Tax News, Reynolds is a volunteer for Convention of States.
FCC Votes to Roll Back ‘Net Neutrality’ Power Grab

By Joshua Paladino

The Federal Communications Commission (FCC) voted to begin the process of undoing a 2015 decision by former FCC Chairman Tom Wheeler classifying broadband internet as a public utility.

FCC commissioners on May 18 approved FCC Chairman Ajit Pai’s proposal to begin drafting regulations undoing Wheeler’s Open Internet Order, a 2015 rule claiming FCC authority to impose traffic decisions, known as net neutrality, on internet service providers (ISPs), which Wheeler claimed was justified by Title II of the Telecommunications Act of 1934.

Controlling Consumers

Bruce Walker, a policy advisor for The Heartland Institute, which publishes Budget & Tax News, explained, “net neutrality means government controls the pipes of the internet, whereas during the era preceding net neutrality, it was consumers who sought and demanded personal control. This latter approach benefited consumers by prompting billions of dollars of investment and buildout of internet access. The former approach, sadly, is resulting in an internet hamstrung by over-regulation.”

Solving Imaginary Problems

Wheeler’s Open Internet Order was an answer to a theoretical problem no one was experiencing in practice, Walker says.

“The Open Internet or network-neutrality rules were intended to solve a nonexistent problem, which essentially was overblown fears privately owned and operated internet service providers might grant preferred status to some legal content over others,” Walker said. “We now have direct, empirical evidence to show how the internet works unfettered by government interference as well as with net neutrality. There were minimal to no problems under the light regulatory touch between 1994 and 2015. Since net neutrality became a de facto law without any congressional input, investments and innovations have hit a wall.”

Market Protecting Consumers

Gerald Faulhaber, a professor emeritus of business economics and public policy at the Wharton School at the University of Pennsylvania, says market forces have already protected consumers better than FCC could have ever hoped to do.

“The FCC should get out of the business of trying to regulate interconnection between ISPs and content providers,” Faulhaber said. “The market has provided this extremely well, and there’s no reason to regulate that.”

Regulation Versus Innovation

Technological progress and government regulation are at odds with one another, Faulhaber says.

“For 20 years, the internet was not regulated at all,” Faulhaber said. “If you think about what the internet did, it’s pretty much the highest speed of innovation we have ever seen in our lives. Generally speaking, it has been a tremendous benefit to mankind, completely without regulation.”

Joshua Paladino (jpaladino@hillsdale.edu) writes from Hillsdale, Michigan.

More Liquor Reforms May Be on Tap for Penn.

By Kimberly Morin

The Pennsylvania House of Representatives approved four bills to reduce restrictions on alcohol and liquor sales.

The House sent the legislation to the state Senate’s Law and Justice Committee in May.

House Bills 438, 975, 991, and 1075—sponsored by state Rep. Mike Turzai (R-Allegheny) and others—build on previous liberalizations of Pennsylvania’s regulation of consumer purchases of alcohol and liquor. The bills would significantly change Pennsylvania’s liquor laws.

House Bill 438 would permit restaurants and hotels selling wine to sell liquor as well. House Bill 991 would allow retail businesses to begin selling wine and liquor in addition to the current state-run vendor system.

House Bill 975 would remove restrictions on how private grocery stores sell wine, also jettisoning requirements that private stores purchase wine and liquor from the state government. House Bill 1075 would remove similar requirements for other classes of alcohol.

In December 2016, Gov. Tom Wolf signed a bill relaxing the state’s “blue law” restrictions, which limited when businesses could sell alcohol to consumers and prohibited licensed breweries from selling other breweries’ products.

Prohibition Legacy

House Majority Leader Dave Reed (R-Indiana) says Pennsylvania’s liquor laws were designed to control consumers, not protect them.

“The governor who was in office after Prohibition was a prohibitionist,” Reed said. “He made a point to set up a liquor system that was the most restrictive in the country, to try and discourage people from purchasing alcoholic beverages. He succeeded in having a legacy that long outlived his tenure in office, and I think over the years it was just a monopolistic system that folks held on to.”

Win-Win Opportunity

Reed says legislative reformers are trying to make the state’s laws more consumer- and taxpayer-friendly.

“Over the last couple of years, we’ve tried to look at a more long-term approach to changing our liquor system,” Reed said. “Let’s get wine and spirits into the private market, but let’s look at it in a way where it enhances long-term revenues, through increased sales, licensing fees, and taxes, so that it’s not a long-term revenue loser to the commonwealth.

“My priorities are consumer convenience [and] long-term revenue proceeds to the commonwealth from a budgetary perspective, to protect our taxpayers,” Reed said.

Modernizing Liquor Laws

Bob Dick, a senior policy analyst for the Commonwealth Foundation, says the bills are about getting government out of the way.

“The bills would build on reforms which were passed [in 2016], that modernized some of Pennsylvania’s wine laws, which allow for private sale of wine and also extend the hours of sales,” Dick said. “This is basically going to give consumers more choice and convenience.”

Kimberly Morin (kimberlyamorin@gmail.com) writes from Brentwood, New Hampshire.
Seattle Mayor’s Soda Tax Idea Covers Coffee, Low-Sugar Drinks

By Jeff Reynolds

The Seattle City Council approved a proposal by Mayor Ed Murray (D) to impose a new tax on sales of soda, coffee, and other beverages containing sugar and artificial sweeteners.

In May, Murray revised a previously announced soda tax to include “diet” drinks containing non-caloric artificial sweeteners, after city Councilmember Tim Burgess raised concerns about the regressive nature of soda taxes. Burgess cited research showing taxes levied on added-sugar drinks took more money from low-income earners and minority demographics than other classes.

“After Murray’s initial announcement, some suggested the exclusion of beverages with artificial sweeteners would be unfair because affluent white people tend to consume more diet drinks,” The Seattle Times reported on April 27.

Grocery stores and other distributors will now be required to remit about $1.18 to the city for every two-liter bottle of soda sold.

Because the tax includes non-soda drinks containing syrup or sweetener, customers at coffee shops such as Starbucks will be required to pay an additional tax of about 21 cents for every “tall” cup of espresso.

Hidden Motive Laid Bare

Jason Mercier, director of the Washington Policy Center’s Center for Government Reform, said “the move to tax diet as well as regular soda calls into question the true reason for the tax. It’s a syrup tax. Soda is the easiest way to hit it, but it will also affect espresso drinks. Very few people realize that their coffee drinks will be taxed as well.”

Tax First, Appropriate Later

Mercier says Seattle lawmakers want to get the tax money first and appropriate spending later.

“The nexus they’re trying to draw now is that there are problems in the schools, so some of the money will go to educational programs. In education funding, you have local school levies and you have state funding. The city doesn’t have a role in funding schools. They’re trying to do other things related to improving education. It’s not like the money is going to go to kids. They have ideas, but there’s no program in place. How do they draw the direct connection between the revenue and the appropriation?”

Not Even Hiding It

Christopher Snowdon, director of lifestyle economics at the Institute of Economic Affairs, says many lawmakers no longer even pretend these taxes are intended to increase public health.

“Many politicians have given up the pretense that soda taxes are about anything other than raising revenue,” Snowdon said. “The ‘public health’ lobby have been the useful idiots for a political tax-grab.”

Backdoor Taxation

Soda taxes are often used to tap new revenue streams that would otherwise be politically unpopular, Snowdon said.

“Soda taxes give politicians an opportunity to tax people who are normally protected on equity grounds: the poor, the unemployed, students, and so on,” Snowdon said. “His honor’s use of social justice rhetoric to extend the tax to diet drinks is ingenious, but a tax on diet drinks will be cold comfort to people of color who drink sugary drinks.”

Jeff Reynolds (jefferyreynolds@comcast.net) writes from Portland, Oregon.
N. Carolina Senate, House Offer Dueling Budget Plans

By Brandi Wielgopolski

The North Carolina House of Representatives and Senate are considering significantly different state budget and taxing proposals.

The state Senate approved a budget bill on May 12 to increase state spending by approximately 2.5 percent more than the fiscal year 2016 budget while reducing state personal and corporate tax rates and increasing tax deductions for individuals.

The state House approved its version of the state budget on June 1, sending the bill to the state Senate for consideration. Lawmakers in both chambers will have to agree on a bill to submit to Gov. Roy Cooper (D) by July 1.

Tax Relief Now and Later

Mitch Kokai, a senior political analyst with the John Locke Foundation, says the Senate bill offers taxpayers significant relief, both now and in the future.

“The Senate budget plan would cut taxes by nearly $1 billion over the next two years while building the state’s savings reserve to its highest level in history and keeping government spending growth in check,” Kokai said.

Kokai says the Senate bill would lower taxpayers’ burdens and allow people to keep more of their hard-earned money.

“Within the tax-cut proposal, senators would continue to lower the personal income tax rate from 5.499 percent to 5.35 percent, and the corporate rate would fall over two years, from 3 percent to 2.5 percent. At the same time, working-class families would benefit from an increase in the standard personal income deduction. Married couples could write off the first $20,000 of income before paying the new, lower rate on the rest of their income.”

‘National Leader’

Patrick Gleason, director of state affairs at Americans for Tax Reform, says North Carolina has become much more taxpayer-friendly in the past five years.

“North Carolina has been the national leader in tax reform,” Gleason said. “Since taking control of state government for the first time in over a century back in 2012, North Carolina Republicans have significantly reduced income tax rates, both personal and corporate. Prior to the GOP takeover in North Carolina, the state had the highest personal and corporate income tax rates in the Southeast. Now, North Carolina has the lowest income tax rates in the region, with the exceptions of Tennessee and Florida, which do not tax income.”

Keeping Spending Under Restraint

North Carolina lawmakers’ efforts to restrain government’s growth are paying off for taxpayers, Gleason said.

“While enacting pro-growth tax reform, North Carolina lawmakers have also made sure to keep spending in check,” Gleason said. “North Carolina lawmakers have kept the growth rate of state spending below the growth rate of population and inflation over the last four years. This conservative approach to budgeting and tax policy has made the Tar Heel State one of the most attractive places in the world in which to live, work, and invest,” Gleason said.

By Elizabeth BeShears

Florida Enacts Tax Cut, New Carve-Outs

By Elizabeth BeShears

The tax burden on Florida residents will decrease by about $180 million—through new tax cuts, exemptions, and carve-outs—in the next fiscal year.

The bill, which Gov. Rick Scott (R) signed into law on May 25, reduces business taxes on commercial leases and property taxes on government housing projects and assisted-living facilities.

Starting in January 2018, feminine hygiene products will be exempted from the state’s sales tax, and the state will hold sales-tax holidays, a kind of temporary sales tax exemption.

‘Very Small’ Cuts

Sal Nuzzo, vice president of policy at the James Madison Institute, says the tax relief for business owners is “very small.”

“There was a very small reduction in what’s called the ‘business rent tax,’” Nuzzo said. “Florida is the only state that charges sales tax on leased property. If you’re a small business owner and you pay rent on your office or facility, you also pay a sales tax on top of that.”

Setting a ‘Glide Path’

Nuzzo says Florida’s business rent tax drives the state government’s budget while driving business owners away.

“It’s one of those places where it’s a huge revenue generator for the state,” Nuzzo said. “They did a very small reduction in that business rent tax, in the hopes that [they] can come back and try to figure out a glide path for it over a period of several years. I think the glide path for the business rent tax would be a huge boost, not only for tax reform but also for economic development in the state.

“If a business is looking to start, and we border Georgia and Alabama, and they are trying to consider where to locate, they’ve got those options, and Florida is the only one they have to add 6.5 percent on to their lease price,” Nuzzo said. “That can make a bottom-line decision. That’s something where I think one of the bigger things we can work on in the next session or two is getting that taken care of completely.”

Bad Working Relationship

Kurt Wenner, vice president for research at Florida Tax Watch, says poor relations between the Florida House and Senate prevented the implementation of more significant tax reforms.

“The governor and the House have been pushing for some significant tax cuts, and the legislature in Florida has been cutting taxes now for several years,” Wenner said. “The Senate has been a little bit less willing to cut taxes to a great degree. It wasn’t a very congenial session, and there were a lot of arguments over various things.”
**Shock! Everything Is Illegal Unless It’s Specifically Allowed, Says Columbiana, Ohio City Attorney**

By Leo Pusateri

The Columbiana, Ohio City Council rescheduled a public hearing on a proposed ordinance “allowing” residents to maintain residential gardens on their property, after the city government’s attorney told reporters anything not explicitly permitted by ordinances, such as gardening within city limits, was prohibited.

On May 9, municipal attorney Daniel Blasdell told reporters from the Salem News the City Council was considering imposing an ordinance to regulate gardening, because it was currently prohibited in the city.

“Right now, if there is not something expressly in this code that says that you can have [a garden], you technically can’t,” Blasdell said. “The intention of it is to not to take away; it is to give.”

The hearing on the proposed ordinance was originally scheduled to take place on June 6, but it was rescheduled to June 23 to allow more time to notify residents.

‘Fundamental Fairness Question’

Daniel Dew, a criminal justice fellow at the Buckeye Institute, says the presumption every activity is illegal unless government explicitly allows it conflicts with the constitutional right to due process.

“There is a fundamental fairness question here that can be tied to due process,” Dew said. “Due process requires government to inform the public of what is illegal. Reading the zoning regulations would not tell you that having a garden is prohibited. In fact, other than space and the types of businesses that can be in residential areas, the code is pretty much silent.”

Permission by Default

Actions should be considered legal unless they are specifically made illegal, Dew says.

“We do not have secret laws in the United States,” Dew said. “This is not the Soviet Union. Is having grass prohibited? How about mulch? Lawn gnomes? What about a flower garden? None of these things are listed as acceptable in the code. It seems that this interpretation allows the city to decide what is prohibited on a case-by-case basis.”

Uncommon Legal Notion

Ryan McMaken, an editor with The Mises Institute and a former economist for the Colorado Division of Housing, says the opinion given by the Columbiana municipal attorney ignores centuries of legal theory and practice.

“Certainly, this notion, if put forward as a legal principle, runs contrary to virtually all of the English common law, which is highly influential in American law,” McMaken said. “That system of law took custom and habit seriously and assumed that legal intervention was only to be necessary when a true violation of property rights was evident. To say that everything is illegal unless it’s explicitly legal is not only odd but also contrary to what most people would consider to be both good law and common sense.”

Leo Pusateri (psycheistr@fastmail.fm) writes from St. Cloud, Minnesota.

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**Report: Louisiana Hospital Privatization Boosted Quality of Care, Prosperity, Jobs**

By Joshua Paladino

Former Louisiana Gov. Bobby Jindal’s (R) efforts to privatize government-run hospitals resulted in increased economic prosperity and better access to health care in the state, according to a recent study by Louisiana State University economics professor Loren Scott.

In 2013, Louisiana shifted to the private sector the operation of state-run hospitals providing health care to low-income citizens.

Scott’s study, published in May, found patient wait times for referrals and services decreased and hospitals’ spending on capital improvement increased, as did overall incomes in the state, because of Jindal’s efforts to get the government out of the health care industry.

Scott attributes about $400 million in household earnings increases and the annual creation of almost 3,000 new jobs to Jindal’s privatization.

Crunched the Numbers

“The thing that I focused on in my report was the very significant amount of money that started flowing into the state treasury because of the hospital privatization,” Scott said. “The biggest parts of those moneys came from two sources. The private sector took some of the government-owned buildings and paid the state a lease payment for the use of those facilities. Because of some odd rules of the federal government, those lease payments become eligible for federal matching payments.

“By the fourth year of privatization, these lease payments, plus the federal match, brought in half a billion dollars to the state treasury that wasn’t there before,” Scott said. “When the hospitals were privatized, payments to doctors also became eligible for a federal match.”

More Efficient, Effective

Scott says privatizing government hospitals also paid off for Louisiana consumers.

“The private sector runs things more efficiently than the government does,” Scott said. “You saw things like wait times dropping dramatically in emergency rooms. You found that they started setting up urgent care centers to handle people so they wouldn’t go to the really expensive emergency rooms, and the lower-income strata had access in their region of the state to specialty services—like radiology, mental health, and cardiology—that weren’t really available to them [previously] unless they traveled all the way to New Orleans.”

Aligning Incentives

Michael Hamilton, a research fellow with The Heartland Institute, which publishes Budget & Tax News, says allowing Louisiana private operators’ profit motives to align with consumers’ health care needs was a win for both parties.

The Louisiana hospital privatization effort demonstrates how the prospect of making a profit motivates private operators to create value—in this case, expanding access for patients,” Hamilton said.

Joshua Paladino (jpaladino@hillsdale.edu) writes from Hillsdale, Michigan.
Congress Considers Outer-Space Regulation Reforms

By Kyle Foley

After a congressional hearing in April about how federal regulations block private individuals and businesses from operating in Earth’s orbit and beyond, U.S. Sen. Ted Cruz (R-TX) launched a follow-up hearing to consider testimony from business owners and policy experts about how federal and international regulations are keeping the private sector grounded.

At the May 23 hearing, lawyers and business owners testified about how international laws and treaties, such as the Outer Space Treaty of 1967, interfere with potential private-sector space activities, such as mining, terrestrial observation, and tourism.

‘An Infinite Economy’
Andrew Gasser, president of Tea Party in Space, a nonprofit organization promoting rapid and permanent private-sector-led expansion into space, says relaxing regulatory burdens on the space industry could have an astronomical impact.

“In space, you have an infinite economy,” Gasser said. “It’s finite, but for our level of comprehension and understanding, there’s an infinite amount of resources. There are literally trillions of dollars, identified in asteroids beyond the moon but closer to Earth than Mars, in rare-earth metals, platinum, nickel, gold, silver, and other things that we could go get and bring back to Earth, to help us with things like electronics and medical fields.”

Relaxing and removing outdated or unnecessary regulatory burdens is essential for the future of this industry, Gasser says.

“There’s a Silicon Valley saying: ‘Innovate or die,’” Gasser said. “Quite frankly, the U.S. government needs to innovate or die. The United States is the greatest country on the face of this planet, and there is no one who can innovate like our free-market, capitalistic model. The only thing that is limiting us is the federal government and [the] onerous regulations that it places on the American people.”

Held Back by Regulatory Bloat
Aaron Oesterle, policy director for the nonpartisan Space Frontier Foundation, says outdated regulations and bureaucratic inertia are thwarting progress.

“Back in the day, we just assumed it’d be a certain way, and now we’re looking at changing it,” Oesterle said. “It’s not any sort of malfeasance, but a long-term history of ‘we did it this way.’”

There are regulations that we structured 20 to 30 years ago, back in the 1990s, when it made sense to do them that way. It’s very hard to get some of the regulatory reform done, because it’s a small office within the Department of Transportation, so trying to get everything in line, so we can have a full review of the regulations, is very difficult.”

Charting a New Course
Done correctly, reforming space regulations could unleash “a universe of possibilities” for consumers and entrepreneurs alike, Oesterle says.

“Space is awash in resources,” Oesterle said. “It’s a universe of possibilities out there. If we want to tap into that and allow people to find their own way and grow and prosper, we can use the cosmos to spread peace, prosperity, and freedom to everybody.

“The way you’re going to do that is allow the possibility for the average Joe Smith to go up and say, ‘I’m going to create my own future in space,’” Oesterle said. “If we want that, then we fundamentally have to change our relationship with space. That means changing the regulations.”

Kyle Foley (kylefoleywrites@gmail.com) writes from Orlando, Florida.
**Puerto Rico Collapses into Bankruptcy**

By Michael McGrady

The government of Puerto Rico, a territory of the United States in the Caribbean Sea, began negotiating with bondholders in federal court to discharge approximately $123 billion in public debt and unfunded pension liabilities, after the commonwealth filed for bankruptcy on May 3.

The first bankruptcy hearing was held in San Juan on May 17, supervised by federal District Court Judge Laura Taylor Swain, as bondholders, lawmakers, and investors met to begin the process.

The territory, governed by Ricardo Rossello (New Progressive Party), is self-governed but ultimately subject to the authority of the U.S. government.

Puerto Rico’s move is the largest government bankruptcy filing in U.S. history, surpassing Detroit, Michigan’s July 2013 bankruptcy, which involved an $18 billion debt load.

**Wake-Up Call**

Joseph Milligan, executive vice president of Fundación Libertad, a nonpartisan think tank in Puerto Rico, says the territory’s collapse will help people realize the urgency of enacting pro-growth economic policies there.

“Regarding the bankruptcy and the fiscal situation, there are no winners in these situations,” Milligan said. “However, it does help us to understand that we are on an unsustainable path. Once we get to the end of that road and we realize that we have to go in a different direction, hopefully that will lead to a much brighter and prosperous future—only if we learn the lessons of what got us here in the first place.”

**‘Toxic’ Policy Environment**

Puerto Rican lawmakers’ refusal to enact free-market policies caused the government’s collapse, Milligan says.

“This fiscal crisis and this bankruptcy had a bit to do with the economic depression, and the economic depression had to do with the business environment in Puerto Rico,” Milligan said. “It is a policy and bureaucratic environment that is toxic to doing business.”

**Lesson for Others**

Jonathan Williams, chief economist and vice president of the American Legislative Exchange Council’s Center for State Fiscal Reform, says what’s happening in Puerto Rico can happen on the mainland, too.

“First of all, while this is a very painful experience to go through for Puerto Rico, it should be a warning sign for many other state and local governments across the United States of what uncontrolled debt spending and pension muddying can be if not treated immediately, capped, and reformed. This is going to be very painful for the taxpayers of Puerto Rico and for the creditors, in some cases.”

**Jonathan Williams**

Chief Economist and Vice President of the Center for State Fiscal Reform

American Legislative Exchange Council

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**Georgia Governor Says ‘Action!’ on Film Tax-Credit Expansion**

By Kyle Foley

Starting in July, video-game and music-video producers will pay lower taxes if they move to Georgia after Gov. Nathan Deal (R) signed a law expanding the state’s film tax-credit program to include other forms of media.

The new law, titled the Georgia Entertainment Industry Investment Act, gives a 20 percent income tax cut to entertainment companies doing film or post-production work in the state, expanding the film tax-credit program to include video-game production companies and music-video producers.

Between 2009 and 2014, Georgia’s film tax credit provided about $925 million in economic incentives to television and movie producers, who combined employed about 4,200 people in 2014.

**Crouching Credit, Hidden Cronyism**

Jeremy Horpedahl, an assistant professor of economics at the University of Central Arkansas, says film tax-credit programs benefit movie producers but not the states that host them.

“Research on a wide variety of tax incentives shows that they rarely benefit the state as a whole,” Horpedahl said. “Tax incentives often benefit the companies receiving them, sometimes benefit the local community, but always at a cost to the entire state. It’s a hidden form of redistribution, disguised as economic development.”

Horpedahl says the expanded tax-incentive program is just another brick in the corporate welfare wall.

“To be honest, the impacts of this reform will likely be small, in both the positive and negative,” Horpedahl said. “It’s just one more tax break in a mountain of tax breaks that Georgia, like all states, has been building up over the years. What Georgia really needs is to be eliminating these kinds of favoritism, with the overall goal of making the state’s tax system less burdensome.”

**Calls for Wider, Lower Taxes**

Kelly McCutchen, president of the Georgia Public Policy Foundation, says making taxes as wide and shallow as possible is the best way to promote prosperity.

“Economists of almost all political persuasions agree that broadening the tax base and lowering tax rates is the best, most efficient tax policy to maximize economic growth,” McCutchen said. “Unfortunately, politicians of almost all political persuasions tend to prefer to cater to special interests.”

The best kind of tax reform is the kind that benefits everyone, McCutchen says.

“The best tax reform is applied broadly, not by carving out companies, industries, or other groups for incentives and special treatment. That’s easy to say and much harder to implement—even arguments for unwise policy can be persuasive. That doesn’t make them right, but it does make them hard to resist.”

**By Michael McGrady**

writes from Orlando, Florida.

“First of all, while this is a very painful experience to go through for Puerto Rico, it should be a warning sign for many other state and local governments across the United States of what uncontrolled debt spending and pension muddying can be if not treated immediately, capped, and reformed. This is going to be very painful for the taxpayers of Puerto Rico and for the creditors, in some cases.”

**Jonathan Williams**

Chief Economist and Vice President of the Center for State Fiscal Reform

American Legislative Exchange Council

“This should be a positive for other governments, to say, ‘We don’t want to be Puerto Rico.’” Williams said. “Hopefully, other state and local governments won’t repeat the same thing.”

Michael McGrady (mmcgrady@mcgradypolicyresearch.org) writes from Colorado Springs, Colorado.
Double Subsidies for NFL Team, Says Nashville Gov. Agency Head

By Kimberly Morin

The Nashville, Tennessee Metropolitan Sports Authority, a local government agency responsible for operating and maintaining professional sports venues in the city and surrounding county, is considering increasing taxpayers’ annual payroll to the owners of the Tennessee Titans, a National Football League team headquartered in the city.

On May 18, Metropolitan Sports Authority Director Monica Fawknson proposed doubling city taxpayers’ annual subsidy to the Titans to $2 million, saying, “[W]e’re just at the place where $1 million is no longer enough to fund the capital needs.”

Welfare for the Rich

Mark Cunningham, communications director at the Beacon Center of Tennessee, says taxpayers’ hard-earned money should not subsidize already-successful business owners’ capital projects.

“They are bringing in millions of dollars, hand over fist,” Cunningham said. “I hate this idea that we need to give them a bunch of money in order for them to be successful. That’s ridiculous. Most of these owners of football and hockey teams are multi-multi-millionaires or billionaires who have obviously made good business decisions in the past. The idea is they are going to come to your city if they think they can make money, which they do fairly often. We don’t need to subsidize them on top of that.”

No Stimulus Needed

Funnelling taxpayer money to subsidize sports teams in the name of economic development doesn’t make sense, Cunningham says, because Nashville’s economy is already booming.

“Nashville is one of the fastest-growing cities in the United States,” Cunningham said. “Why do we need to pay all this money for these teams to come in here when they are going to make money anyway? We don’t need to subsidize them.”

Suggests Subsidy Cuts

Ross Marchand, a policy analyst with the Taxpayers Protection Alliance, says lawmakers should be cutting taxpayer subsidies, not increasing them.

“Given the track record with all these subsidies, it is time for state governments and municipalities to take a step back from all these ridiculous, convoluted financing schemes,” Marchand said. “It’s a huge redistribution of wealth from the bottom to the top, to these sports executives and the players.”

Unfortunately for taxpayers, Marchand says, sports stadium subsidies are an easy way for lawmakers to take credit for economic prosperity.

“I think that it’s easy to take other people’s money,” Marchand said. “It also looks attractive to politicians to say they were behind these renovations or relocations. It’s the whole thing where the benefits are seen and they are gaudy and on display, but the costs are unseen and dispersed, and we all have to foot the bill for it. The costs are also spread out amongst many decades, so taxpayers are not necessarily feeling an immediate impact, but over the long run, they will certainly be feeling that impact.”

Kimberly Morin (kimberlyamorin@gmail.com) writes from Brentwood, New Hampshire.

Louisiana Ridesharing Bill Hits Dead End in Senate Committees

By Hayley Sledge

The Louisiana Senate Judiciary Committee tabled a bill that would standardize the state’s transportation regulations on peer-to-peer economy transportation network companies (TNCs) such as Lyft and Uber.


After the bill was received by the state Senate on May 18, Senate President John Alario Jr. (R-Westwego) assigned the bill for consideration by three committees—the Senate Judiciary Committee, Senate and Governmental Affairs Committee, and Transportation Committee—effectively eliminating the bill’s chances of being considered before June 8, the end of the Senate’s session for the year.

Calls for Regulatory Uniformity

Cortez says TNC drivers should only have to get one license to serve consumers statewide, instead of having to deal with individual municipal governments with varying regulations and requirements.

“If you operate in the State of Louisiana, you ought to be regulated under the laws of the State of Louisiana and have to answer to basically one licensure that covers you throughout the state,” Cortez said. “Under the current situation here in Louisiana, as well as in many other states, TNCs are having to negotiate with local jurisdictions as to whether or not they can participate and their network can be utilized in the local municipalities and at what cost to the local municipalities.”

Patchwork Framework

Abhay Patel, acting executive director of the Pelican Institute, says maintaining the status quo means TNC drivers must navigate a maze of government regulations.

“We have 64 parishes in Louisiana,” Patel said. “Imagine a system in which the regulatory framework changes every few miles. For efficient operations, business owners need certainty and clarity. A municipality-driven system is the opposite.”

Standardized regulations benefit consumers and providers alike, Patel says.

“A single, statewide regulatory system with respect to ridesharing is critical,” Patel said. “Ridesharing comes in and offers an alternate form of transport with high reliability, good quality, and attractive pricing. These companies are especially valuable to the physically disabled, the elderly, and the poor.”

Who Benefits?

City governments with higher fees and more regulations benefit from the current system, Cortez says.

“Those who have the highest charges for licensure are going to be the ones who may be the losers when the state decides that you should only charge a fee commensurate with the service that it requires to maintain and provide the license for the individuals,” Cortez said. “They don’t want to lose revenue.”

Hayley Sledge (hayley@sledges.us) writes from Dayton, Ohio.

INTERNET INFO

Lawsuit Challenging Federal Cigar Regulations Delayed

By Jeff Reynolds

A lawsuit challenging a 2016 decision by the U.S. Food and Drug Administration (FDA) expanding its power has been delayed again.

The court’s decision postpones compliance deadlines set by the controversial “deeming rule” regulation, slowing down the phase-in of the rules.

In August 2016, FDA declared regulatory powers granted by federal law in 2009 to restrict cigarette sales extend to other products, such as e-cigarettes and cigars.

Lawyers for Cigar Rights of America (CRA), a nonprofit public advocacy organization representing cigar smokers’ interests, were originally scheduled to present their case before Judge Amit P. Mehta in the U.S. District Court for the District of Columbia, but in May Mehta ordered new deadlines for the trial, pushing back the court date by approximately three months.

Mehta’s order notes FDA agreed with the judge’s decision to extend the deeming rule’s submission deadlines for paperwork, such as lists of products sold and documentation of product advertising plans.

No official court date has been set. Mehta is scheduled to consider motions in the case on December 8.

‘Unprecedented’ Regulation

Glynn Loope, executive director of CRA, questions the prudence of FDA’s cigar regulations.

“On May 10, 2016, the FDA issued its Final Rule for the regulation of cigars, in addition to other products, and for the first time in history, brought premium handmade cigars under the domain of federal regulatory authority,” Loope said. “Within those 499 pages, roughly 30 of them attacked the premium cigar industry in an unprecedented manner. The regulations impose draconian new reporting, testing, pre-market review requirements, user fees, bans on samples, and new warning labels that defy any basis in scientific review. It is what I would characterize as Velcro rulemaking: ‘Let’s throw everything at them, and see what sticks.’”

‘A Turning Point’

Loope says he’s optimistic about CRA’s chances in court.

“With the agenda on both ends of Pennsylvania Avenue seemingly pressing against regulatory overreach, and within a federal courthouse in between the two, we are hoping that 2017 represents a turning point in this case study in regulatory extremism,” Loope said.

Paperwork Overload

Lindsey Stroud, government relations coordinator for The Heartland Institute, which publishes Budget & Tax News, says the deeming rule dramatically increases paperwork for cigar manufacturers.

“The new rules mean cigar manufacturers would be subjected to an array of new regulations, including reporting and paying user fees; registering and submitting a list of products, including labeling and advertisements, as well as ingredient listings; submitting tobacco health documents; applying for the ability to market the ‘new’ tobacco product; submitting warning plans for cigars; and submitting documentation of quantities of harmful and potentially harmful constituents,” Stroud said.

Different Products, Different Rules

Stroud says cigars and cigarettes are different products that should be regulated differently.

“Though technically a tobacco product, the risk of harm associated with cigars is nowhere near the equivalent to that of tobacco cigarettes,” Stroud said. “Most cigar smokers use the product very infrequently, not ritually. Think of celebrations, or teeing off on the 10th hole, versus on-the-hour smoke breaks for the people who smoke cigarettes. In addition to the point that the harm from cigars and cigarettes is not comparable, the ruling by FDA’s own estimate could wipe out 10 to 50 percent of cigar products, to comply with the new regulations.”

Jeff Reynolds (jefferyreynolds@comcast.net) writes from Portland, Oregon.

Pressure Builds on Speaker Ryan to Drop Border Tax Idea

By Jesse Hathaway

Members of the U.S. House of Representatives are calling on Speaker Paul Ryan (R-WI) to abandon a proposed border-adjustment tax (BAT) and move on to other federal tax reform ideas in 2017.

Ryan first offered the BAT proposal in 2016 as part of the House Republican Tax Reform Task Force’s “Better Way” blueprint, a campaign document of ideas for lawmakers to promote during the election.

The Ryan tax reform proposal would partially replace taxes on international businesses’ profits earned in other countries with a border-adjustment tax on imported and domestically produced goods.

At a Heritage Foundation event on June 9, Rep. Mark Meadows (R-NC) said Ryan’s BAT idea lacks support from House lawmakers.

“There is no consensus for the border-adjustment tax,” Meadows told attendees. “The sooner we acknowledge that and get on with a plan that actually works and actually can build consensus, the better off we will be.”

Jesse Hathaway (jhathaway@heartland.org) is managing editor of Budget & Tax News.

Venezuelans are starving to death, reportedly eating zoo animals, pets, and even rats to survive. Consumer staples Basic consumer products and medicines are gone. Gangs and police openly murder. Rumors of cannibalism fill the air.

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House of Reps Approves Dodd-Frank Rollback Bill

By Joshua Paladino

The U.S. House of Representatives has approved a bill that would ease federal restrictions on banks, reduce the cost of regulatory compliance, and relax some federal government controls over banks and financial services.

Congress and President Barack Obama imposed new financial restrictions in 2010 in response to the 2008 economic crisis, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly referred to as Dodd-Frank.

On June 8, the House of Representatives approved the Financial Creating Hope and Opportunity for Investors, Consumers, and Entrepreneurs (CHOICE) Act.

If approved by the U.S. Senate and signed into law by President Donald Trump, the bill would repeal Dodd-Frank and reduce the power of the Consumer Financial Protection Bureau (CFPB), a government agency created by Dodd-Frank and tasked with enforcing new financial laws and regulations.

Limiting Choices

John Berlau, a senior fellow at the Competitive Enterprise Institute, says Dodd-Frank worsened the problems lawmakers said they intended to solve.

“Dodd-Frank limited options for consumers and didn’t go after what was the cause of the crisis,” Berlau said. “The main effect of Dodd-Frank is that it has made too-big-to-fail banks even bigger and has put up red tape, which has furthered the consolidation and decline of community banks. Some community banks are not even offering mortgages anymore, because Dodd-Frank and the CFPB have made it too difficult.”

Obamacare for Banks

Dodd-Frank is to consumers’ financial well-being what Obamacare is to consumers’ physical health, Berlau says.

“Just as Obamacare has not meant that if you like your doctor you can keep it, so has Dodd-Frank not meant that if you like your bank you can keep it,” Berlau said. “With the CHOICE Act, it will be easier to get a mortgage and easier to get a mortgage from the bank you want.”

Increased Oversight for CFPB

The bill also fixes constitutional problems with CFPB by giving lawmakers more oversight, Berlau says.

“The CHOICE Act makes the CFPB more accountable, with a director who is removable by the president,” Berlau said. “It puts the CFPB and all financial regulatory agencies, except for the Federal Reserve, directly under the appropriations process of Congress, so they’re directly accountable. Congress can deny funding or decrease funding if it doesn’t like what they’re doing.”

Meghan Milloy, director of financial services policy at the American Action Forum, says Dodd-Frank’s cost to business owners and consumers exceeds the benefits it provides.

“Since 2010, Dodd-Frank compliance costs have been around $40 billion,” Milloy said. “These increased regulation costs get passed down to the consumer. Dodd-Frank was billed and marketed as a consumer protection law. When you look at the cost burden and the paperwork burden, it has ended up harming them.”

Opening Investment Channels

With the CHOICE Act, small business owners will have more options for getting capital investments from banks, Milloy says.

“Small-business lending is the one thing that hasn’t really recovered since the crisis,” Milloy said. “The CHOICE Act’s key provision is that banks will either be able to stay under the current regulatory structure or choose to hold higher levels of capital and get out of this current regulatory structure. I think that will allow a lot of banks to free up capital that is currently being spent on compliance.”

Joshua Paladino (jpaladino@hillsdale.edu) writes from Hillsdale, Michigan.
Penn. House Committee Schedules Vote on Smoking Ban Expansion

Just before the Pennsylvania House of Representatives’ Health Committee was scheduled to vote on a bill expanding the state’s smoking ban to include almost all private businesses, state Rep. Matthew Baker (R-Tioga County), sponsor and Health Committee chairman, pulled the bill from the schedule to make revisions.

The committee had scheduled a June 5 vote on House Bill 1309, a bill increasing restrictions on where people may legally smoke tobacco and e-cigarettes, but Baker began revising the bill at the last minute, excluding cigar bars from the expansion.

The original bill would have prohibited tobacco and e-cigarette use in almost all privately owned businesses, including bars, cigar bars, casinos, and outdoor patios.

On June 6, Baker told PennLive.com reporter Charles Thompson he was revising the bill to remove cigar bars from the proposed smoking-ban expansion.

The bill also would criminalize outdoor tobacco and e-cigarette use within 20 feet of a private business.

Busybodies and Businesses
William Anderson, a professor of economics at Frostburg State University, says lawmakers claim smoking bans are in people’s best interest, but they really serve to promote government’s interest in attaining more power.

“Everybody wants to be progressive and on the cutting edge of new legislation, but what we’re doing is putting restrictions on other people,” Anderson said. “I doubt it will save any lives. People who already smoke will continue to smoke, and the secondhand smoke threat is way overblown.”

Allowing business owners more flexibility to set policies for acceptable behavior on their property is better than piling on more laws and rules, Anderson says.

“Let the property owners decide, period,” Anderson said. “The law is looking to extend itself into personal affairs. People ought to be able to make the choices that they would like to make on their own property.”

Not Interested, Not Happy
If smoking bans were in consumers’ best interests, business owners would have voluntarily banned smoking on their property, Anderson says.

“Hospitality businesses generally don’t like [smoking bans],” Anderson said. “They hurt business and drive away certain customers. If they wanted to ban smoking, then they would have done it already.”

Bob Dick, a senior analyst at the Commonwealth Foundation, says property owners are better equipped than lawmakers to decide what people should be allowed to do when visiting their establishments.

“Business owners and entrepreneurs are in a better position to decide what is best for their business,” Dick said. “So, if government comes in and imposes this mandate, it could have some unintended consequences, such as patrons no longer going to these establishments and companies ultimately going out of business.”

Deterrence Failure
Expanding smoking bans does not significantly encourage people to quit smoking, Dick says.

“The vast majority of people know that smoking is not good for their health, but they engage in it anyway,” Dick said. “It’s not really going to deter them that much.”

Joshua Paladino (jpaladino@hillsdale.edu) writes from Hillsdale, Michigan.

Manhattan Institute is a national think tank focusing on Education, Legal Reform, Health Care, Energy and Environment, Economic Growth and Urban Policy.

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A Challenging and Worthwhile Exploration of the Fed’s Real History

By Jay Lehr

Money: Free and Unfree is an extraordinarily detailed collection of 10 essays about the history of American monetary and financial crises. The book, authored by George Selgin of the Cato Institute’s Center for Monetary and Financial Alternatives and a professor emeritus at the University of Georgia, overturns conventional wisdom about the history of banking by tracking down and identifying the real source of financial disorder: government regulations and, for the past century in the United States, the Federal Reserve System, popularly known as the Fed.

Selgin tells the real story of the Fed, including the debates over financial regulation before its 1914 enactment and details of the Fed’s failures to meet its own goals throughout its history.

False Blaming the Market

Starting in the eighteenth century and continuing to the present, people—including regulators—have failed to distinguish the effects of market forces from the results of government interference, causing people to mistake government’s missteps and bungling for flaws in the market system, Selgin states. Governments’ actions, Selgin says, caused sharp depressions in 1873, 1884, 1893, and 1907.

As the philosopher George Santayana wrote in his 1905 book Reason in Common Sense, “Those who cannot remember the past are condemned to repeat it.” Selgin’s retelling of the nation’s financial history demonstrates how regulators’ failure to learn from past government mistakes has led to the same errors being made repeatedly and the same consequences ensuing. In particular, scholars and policymakers are largely ignorant of the proven successes of decentralized monetary systems and the tendency of central banks to create unnecessary business cycles and disastrous monetary catastrophes.

“Instead of knowing about the actual record of past, decentralized monetary systems, most economists today simply take for granted that no country can avoid financial crises except by resort to substantial government regulation, including laws establishing a central bank capable of regulating its money supply and serving as a ‘lender of last resort,’” Selgin writes.

“Given that so many economists today are unfamiliar with the non-central-bank-based monetary arrangements of the past, and so are convinced, in their ignorance, that such systems couldn’t have worked well, it should come as no surprise that few have bothered to seriously consider how other, still experimental alternatives, might also prove more conducive to financial and monetary stability than the Fed and other central banks,” Selgin writes.

Government-Caused Booms and Busts

These central banks, we’ve been told, ensure credit’s continued flow, but they also fuel the economic sugar rushes preceding contractions and busts. This boom-and-bust cycle is not caused by the free market but by government regulation made possible by its monetary monopoly, Selgin writes.

“The fragility and instability of real-world banking systems is not a free-market phenomenon but a consequence of legal restrictions,” Selgin writes. “This does not mean that deregulation is without its dangers. Dismantling bad bank regulations is like cutting wires in a time bomb: the job is risky and has to be done in carefully ordered steps, but it beats letting the thing go on ticking. Once the fuse—the legal restrictions—is dismantled, the payload—central banking and fiat money—can safely be disposed of.”

Monetary Myth-Busting

Selgin weaves a thought-provoking offensive against the common wisdom about central banks. Proponents of the central bank argue it ensures no financial collapse can occur, because fiat money allows the bank to print more money as needed, guaranteeing the lender can never go broke. Selgin exposes this conventional wisdom to be a circular argument.

“No Fed propaganda has contributed more to its stature than that devoted to convincing the public that any other arrangement would have resulted in a less stable U.S. monetary system,” Selgin writes. “To support this belief, the Fed has had to overcome the American public’s long-standing resistance to the idea of having a central bank in the United States. The Fed’s architects were able to do this easily enough, by denying that the Federal Reserve System was a central bank at all, and official Fed publications still vaunt its ‘decentralized’ structure. But the Banking Act of 1933, in making the newly constituted Board of Governors the acknowledged seat of Federal Reserve power, put paid to that conceit, forcing Fed apologists to instead insist that a central bank was, after all, the only arrangement capable of providing the nation with a stable currency system.”

Imagine …

In place of a central bank, Selgin suggests moving to a system of decentralized banking, or branch banking, like the system instituted by Canada in the aftermath of the Great Depression.

He writes, “Canadian banks, unlike their U.S. counterparts, were free to issue notes on the same general assets that supported their deposit liabilities. … If we consider both Canada’s highly successful arrangement, which avoided all of the antebellum crises to which the U.S. economy had been subject, and the Fed’s own performance, to characterize the U.S. turn to central banking in 1913 as a second-best solution is perhaps being overly generous.”

Educated by Selgin’s illuminating essays, the reader will understand just how dependent commerce is on stable money and just how spectacularly the Federal Reserve has failed to achieve its stated purpose of “[providing] the nation with a safer, more flexible, and more stable monetary and financial system.”

Readers seeking enlightenment about banking’s true history and/or an education about the world of possible alternatives to our current central-banking regime should open their minds to this fascinating book, which will challenge readers to learn how government manipulates the economy through money creation and help them to begin imagining a world without the Fed.

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The Heartland Institute is a 33-year-old national nonprofit organization based in Arlington Heights, Illinois. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at heartland.org or call 312/377-4000.

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