Rent-Control Question on Santa Cruz, California Ballot

By Jeff Reynolds

Santa Cruz, California voters will decide in November whether to approve a ballot measure that would amend the city’s charter to create new government regulations restricting apartment prices and leasing terms. Ballot Measure M, officially known as the Santa Cruz Rent Control and Tenant Protection Act, would require any rent increases established after October 2017 to be reversed and future rent increases capped.

“For tenancies that commenced on or after October 1, 2017, any new rental adjustment that exceeds the current adjustment, calculated as the percentage increase in the Consumer Price Index (CPI) for the previous quarter will be reversed,” said Jeffrey Reynolds, senior analyst with the Heartland Institute.

The measure would also require landlords to adhere to a new lease template, which would be provided by the city, covering a variety of topics ranging from maintenance to security deposits.

San Diego’s rent-control law was the first in the country to be approved by voters. The city’s current law was approved in 1979. The proposed law would also require landlords to provide tenants with an annual report of rental history and maintenance expenses, as well as a new form for tenants to file complaints.

“Rent control is a failed policy that has led to a shortage of available housing and higher prices for those who do find places to rent,” said Reynolds. “It would be better for Santa Cruz to focus on policies that promote economic growth and job creation.”

The Heartland Institute

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Save the date! The Heartland Institute’s premier event for elected officials, policy analysts, and government affairs professionals will return in Winter 2018! The Emerging Issues Forum (EIF) will look to the future and explore innovative solutions in the top policy areas affecting your state.

Mid-December Phoenix will be perfectly cool and dry, especially for our friends in the snowy, icy North. Even better, admission and meals are free for elected officials, their spouses, and their staff. Heartland is also offering complimentary hotel accommodations and a limited number of $350 travel scholarships for members of the Legislative Forum.

To RSVP for EIF or to join the Legislative Forum, contact Government Relations Coordinator Arianna Wilkerson at 312/377-4000 or by email at awilkerson@heartland.org.
Philadelphia’s Civil-Asset ‘Robo-Forfeiture’ Process Dismantled

By Brandon Best

Lawyers representing the City of Philadelphia, Pennsylvania backed down from a four-year-old lawsuit filed by the Institute for Justice, a nonprofit public-interest law firm, agreeing to limit city law enforcement agencies’ and prosecutors’ use of civil-asset forfeiture (CAF) to take ownership of individuals’ seized assets or property.

In 2014, the Institute for Justice (IJ) filed a lawsuit in the U.S. District Court for the Eastern District of Pennsylvania on behalf of Philadelphia residents Norys Hernandez, Nassir Geiger, Christos and Markela Sourvelis, and Daila Welch. IJ lawyers alleged city law enforcement agencies and prosecutors conspired to “not only unconstitutionally deprive people of their property, but also of their constitutional rights to due process of law.”

The lawsuit, heard by Senior U.S. District Judge Eduardo C. Robreno, nominated by President George H. W. Bush in 1992, also alleged the city operated a “rigged system of copied ‘form’ legal documents and endless proceedings in a court run by the prosecutors themselves,” referred to in the complaint as a “robo-forfeiture” program, generating up to $5.8 million in annual revenue for the city.

Philadelphia government lawyers backed down in September, agreeing to a legally binding consent decree restricting how and when city law enforcement agencies may use civil-asset forfeiture procedures and prohibiting the city’s Office of the District Attorney and Police Department from using forfeiture proceeds to fund government employees’ salaries.

The decree also creates a $3 million fund for compensating past forfeiture victims in the city.

Intentions vs. Outcomes

Pennsylvania state Sen. Michael Folmer (R-Lebanon) says asset forfeiture is a tempting source of revenue for many governments.

“Unlike criminal forfeiture, civil forfeiture does not require that the property owner be charged, much less convicted, of a crime. It is based on a legal fiction that the property itself is guilty.”

DARPANA SHETH
SENIOR ATTORNEY
INSTITUTE FOR JUSTICE

“The original intent was to crack down on these big cartel guys, like Pablo Escobar, but what it ended up being was a tool that got misused by local police departments, which used it as a way to generate money, rather than by raising taxes, to run their offices,” Folmer said.

Big Government, Big Money

Darpana Sheth, the senior attorney at the Institute for Justice leading the lawsuit against the City of Philadelphia, says civil-asset forfeiture is an example of how government power leads to government corruption.

“Civil forfeiture is the government’s power to confiscate property it suspects of being involved in a crime,” Sheth said. “Unlike criminal forfeiture, civil forfeiture does not require that the property owner be charged, much less convicted, of a crime. It is based on a legal fiction that the property itself is guilty. Given how easy and lucrative civil forfeiture is for law enforcement and the limited judicial oversight involved, it is not surprising that it has led to egregious and well-documented abuses.”

CAF is a tool the government wields against ordinary people, not large criminal enterprises, Sheth says.

“‘Strengthens Needed Protections’

Sheth says the settlement will help protect Philadelphians from being exploited by the police.

“The settlement will end law enforcement’s pursuit of revenue over the pursuit of justice,” Sheth said. “Rather than padding law-enforcement budgets, forfeiture revenue will now go to help communities with drug prevention and treatment programs. This ensures that Philadelphia will no longer use forfeiture to treat its citizens like ATMs.”

The consent decree will protect people’s property rights from government aggression, Sheth says.

“The agreement strengthens needed protections for property owners,” Sheth said. “It transforms the Kafkaesque process through which property was seized and forfeited, into something more befitting the birthplace of our Constitution. Finally, the agreement proposes taking all remaining forfeiture revenue and establishing a $3 million fund so that innocent property owners can get back every dollar they lost.”

Brandon Best (bbest@cedarville.edu) writes from Cedarville, Ohio.
before October 19, 2017, the base rent shall be the rent in effect on October 19, 2017,” Ballot Measure M states. “For tenancies that commenced after October 19, 2017, the base Rent shall be the amount of Rent actually paid by the Tenant for the initial term of the tenancy.”

The measure would also increase the costs paid by apartment owners to former tenants evicted for lease violations, requiring landlords to provide “at least six times the then current fair market rent as relocation assistance to affected tenant households.”

Additionally, Measure M would create a government commission with the power to set housing policies for the city without oversight from city council members or the city’s mayor.

More Regulations, More Problems

Gerald Mildner, an associate professor of real estate finance at Portland State University and academic director of the university’s Center for Real Estate, says rent controls cause rental housing to deteriorate.

“It creates unintended consequences, both in terms of the maintenance of the units and in terms of the production of new units, and then ultimately the efficiency for how the housing market allocates units,” Mildner said. “We know that if you hold prices below market levels, you’ll have an excess of demand over supply.”

Kerry Jackson, a fellow at the Center for California Reform at the Pacific Research Institute, says price ceilings on rental housing cause the very problem policymakers say they want to solve.

“Rent-control laws are supposed to make housing more affordable, but they actually have the opposite effect,” Jackson said. “They cause housing shortages, which increases housing costs.”

Shutting the Door

Mildner says Measure M will only benefit people who already have apartments.

“A lot of people will want those units, but the person who was in there last year gets access to the unit today, if they want it,” Mildner said. “Whatever benefits that accrue, their benefits would accrue only to the tenants that are in place in advance of the legislation. Those benefits tend to erode as life circumstances change.”

Jackson says the resulting shortage of rental housing cannot be solved with subsidies or other forms of government interference.

“Subsidies could encourage home building, but they won’t help the problem,” Jackson said. “In fact, they will likely make it worse because subsidies would encourage owners to increase their rents. We’ve seen how college tuitions have increased as government became more and more involved in subsidizing tuition costs.”

Leviathan’s Feedback Loop

Government control often results in a demand for more government control, instead of actually solving the problem at hand, Mildner says.

“It usually forces cities to come up with a regulatory regime where all of those things described—like the temperature setting, the number of hours of doorman service, frequency of garbage pickup—all become standards future landlords have to accept,” Mildner said. “That creates kind of a whole bureaucratic framework for determining housing quality.”

‘Leads to Quality Deterioration’

Mildner says rent-control policies generally encourage landlords to deliver a lower-quality service for tenants.

“In terms of the longer range, if there’s a vacancy in a rent-controlled unit and rents in the future are held below market [prices], landlords will have lots of tenants applying for those units,” Mildner said. “They’re also unlikely to do small things to maintenance if you got excess demand. Why bother painting the building, maintaining the number of hours of doorman service, or reducing the heat or air-conditioning expenditures on the building? These are all kinds of small and subtle ways that rent control leads to quality deterioration.”

Jeff Reynolds (jeffreyreynolds@comcast.net) writes from Portland, Oregon.
New Jersey Governor Vetoes Hair-Braiding Licensing Reform

By Sarah Quinlan

The New Jersey General Assembly approved Gov. Phil Murphy’s substitute proposal for licensing African hair braiding, after Murphy conditionally vetoed a bill that would have exempted hair braiders from the state’s regulations governing mandatory education for cosmetologists.

The substitute bill creates a separate set of occupational licensing requirements for braiders, mandating up to 50 hours of coursework. Braiders who have been licensed for at least three years will be permitted to apply for a license. Currently practicing hair braiders who are unlicensed will be required to stop working for three years before applying for permission or to find a state-licensed cosmetologist or beautician to manage the business.

Murphy conditionally rejected the original legislation, Assembly Bill 3754, and submitted the substitute proposal in August. The New Jersey Assembly and Senate voted to accept Murphy’s alternative on September 27.

African hair braiding, also known as natural hair braiding, involves no chemicals or heat and is often practiced by members of the African-American community.

Price Hikes, Job Losses

Edward Timmons, an associate professor of economics at St. Francis University and a policy advisor to The Heartland Institute, which publishes Budget & Tax News, says requiring government permission slips discourages entrepreneurs from opening new businesses and artificially increases prices.

“Occupational licensing increases the price of hair-braiding services for consumers,” Timmons said. “The fees associated with occupational licensing requirements are more burdensome for the poor. Individuals with criminal backgrounds may be barred from obtaining employment. In addition, military families that are more mobile are disproportionately affected.”

Years-Long Fight for Reform

Brigitte Nzali, owner of African & American Braiding, Inc. in Gloucester Township, New Jersey, says she has been fighting to reform hair-braiding regulations for nearly two decades.

“I have been dealing with this issue for almost 18 years now,” Nzali said. “I have a business management degree, and I decided to study the market. I realized that everybody that I knew in the community had to fly to Philadelphia and even New York just to have their hair braided.”

When Nzali immigrated to New Jersey and became a naturalized citizen, she saw a need for hair-braiding services and decided to open a business to fulfill that demand, Nzali says.

“I’m an African—I know how to braid; it’s the culture,” Nzali said. “My mom braids, and since I was born we were braiding. I’m like, ‘Oh, this is a good business that I can focus here in the community, and that way people don’t have to travel everywhere to have their hair done,’ so I decided to open a braiding salon.”

‘They’re Still Fining Me’

When New Jersey government officials haven’t been ignoring her attempts to educate them about deregulating hair-braiding, they have actively fought against those efforts, Nzali says.

“I’ve been fighting,” Nzali said. “I wrote to the governor. I wrote to the previous governor. The previous governor heard about my involvement in this issue and appointed me to his board to help for braiding. The board rejected my appointment because you have to go through legislation and all that. In between that, they’re still fining me.”

Timmons says occupational licensing is often supported by industry insiders in order to preserve their hold on markets and prevent newcomers from entering the field.

“Professional associations are always the fiercest lobbyists for licensing legislation,” Timmons said. “Cosmetologists have a lot to gain from maintaining the status quo and limiting competition.”

“Occupational licensing increases the price of hair-braiding services for consumers. In addition, hair-braider licensing makes it harder for aspiring hair braiders to start a business. This may force hair braiders to work underground, or discourage them from working at all.”

EDWARD TIMMONS
ASSOCIATE PROFESSOR OF ECONOMICS
ST. FRANCIS UNIVERSITY

‘Not a Binary Choice’

The market can often regulate at least as effectively as government, Timmons says.

“Regulating occupations is not a binary choice between occupational licensing, the strictest form of regulation, and no regulation at all,” Timmons says. “There are a number of alternatives, including shop inspections or private certification. With hair-braiding, it may be sufficient to simply allow the market to regulate the profession. Online rating services can provide consumers with information on good and bad hair braiders. Hair braiders providing poor quality service will not be in business for very long.”

Vows to Keep Pushing

Even though New Jersey lawmakers have refused to reduce the regulatory burdens on her community and profession, Nzali says she wants to work with elected officials to help promote equality and prosperity for the state’s African-American community.

“I want to help them to improve braiding,” Nzali said. “I’m not here to challenge them. I’m here to help the state. I’m here to make it right, because I love this state. I live here, it’s my state, I’m a United States citizen, I love my country of residence now, and this is my country of nationalization. Even though I was born in Africa and grew up in France, I love this state.”

Sarah Quinlan (think@heartland.org) writes from New York City, New York.

Official Connections:
New Jersey Gov. Phil Murphy:
https://www.nj.gov/governor

INTERNET INFO
Amazon.com founder and Chief Executive Officer Jeff Bezos, was introduced by U.S. Sen. Bernie Sanders (I-VT) on September 5. The Finance Committee has not yet scheduled debate on the bill.

‘Envy-Driven Desire’
Edward Hudgins, director of research for The Heartland Institute, which publishes Budget & Tax News, says it’s important to remember jobs improve people’s lives.

“There are a half-million people working who would not be working today, thanks to Jeff Bezos and to Amazon,” Hudgins said. “You can say the same thing for Wal-Mart. You can say the same for many, many other businesses. They’re the ones who create the jobs. What do these people get from people like Bernie Sanders? They get envy-driven desire to loot and to steal what they cannot create.”

Hudgins says the private sector provides solutions to people’s problems.

“Bernie Sanders and politicians create nothing of value, except for minimal law enforcement and enforcement of contracts,” Hudgins said. “It is people like Jeff Bezos, Steve Jobs, and Bill Gates that start with zero. They start with nothing, have a vision, and build it.”

‘There Should Be Statues’
Hudgins says Bezos and other successful business owners should be celebrated, instead of targeted by politicians.

“Amazon, Wal-Mart, and many other companies should be celebrated,” Hudgins said. “There should be statues built to these wealth-creators.”

Good Intentions, Bad Idea
Adam Michel, a policy analyst with The Heritage Foundation, says the intentions of the bill’s sponsors may be good, but that’s the only positive aspect of the proposal.

“They seem to be saying that the welfare state is much too large and accessible to people who don’t need it, and the bill is trying to take some of that back,” Michel said. “The intention, as with most liberal policies, seems to be a good one: They want businesses to step up to the table, to not have their workers rely on these programs. But when you start thinking about the consequences, it can be pretty perverse.”

Michel says the bill would reduce businesses’ incentive to help people get out of poverty.

“It essentially would penalize any business that is trying to hire low-skilled or low-income employees, simply because the government has such generous benefits,” Michel said. “They then tax companies that are trying to hire and give folks a job that fits that criteria.”

‘Who Drove Up Those Costs?’
Hudgins says politicians such as Sanders typically create the problems they say they wish to solve with the power of government.

“There are a half-million people working who would not be working today, thanks to Jeff Bezos and to Amazon. You can say the same thing for Wal-Mart. You can say the same for many, many other businesses. They’re the ones who create the jobs. What do these people get from people like Bernie Sanders? They get envy-driven desire to loot and to steal what they cannot create.”

EDWARD HUDGINS
DIRECTOR OF RESEARCH
THE HEARTLAND INSTITUTE

WHIRLWIND PRIVATIZATION IN THE WINDY CITY

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Official Connections:
Proposed Treasury Rule May Hit Tax-Credit Scholarship Programs

By Sarah Quinlan

T he U.S. Department of the Treasury and the Internal Revenue Service (IRS) have closed the comment and testimony period for a potential revision to how federal income taxes treat payments to local and state tax-credit programs, including charities intended to help low-income families send their children to better schools.

The Tax Cuts and Jobs Act (TCJA), signed by President Donald Trump in December 2017, limits the amount of state and local taxes individuals may deduct from their federal income taxes. In 2018, 12 state governments created tax-credit programs intended to circumvent the federal deduction cap.

‘Allowed Fake Charities’

Lennie Jarratt, education project manager at The Heartland Institute, which publishes Budget & Tax News, says some state governments were trying to circumvent provisions of TCJA by effectively creating fraudulent charities. “States allowed taxpayers to pay their taxes into a state-run fund, and then they could deduct these payments as a charitable contribution,” Jarratt said. “The states essentially allowed fake charities to get around federal tax law.”

Jarratt says the Treasury proposal does not differentiate between these state-run gimmicks and legitimate charities such as tax-credit scholarship (TCS) programs.

“The proposed rule treats donations to these fake charities the same as donations to real charities and limits their deductibility on federal taxes,” Jarratt said. “The ability to utilize a federal tax deduction on top of a state tax credit encouraged larger donations. Without this benefit, the incentive to donate, especially for small donors, will be reduced. This potentially reduces the amount of donations to tax-credit scholarship programs, as well as other charitable organizations.

“If there is a large enough reduction in TCS donations, fewer scholarships will be available for students who need them,” Jarratt said.

Intended to Stop Gimmicks

Leslie Hiner, vice president of legal affairs at EdChoice, a nonpartisan nonprofit organization promoting educational freedom, says the Treasury rule is intended to prevent state governments from avoiding the consequences of their tax policies.

“In a nutshell, the rule was proposed after a few high-tax states passed laws to help wealthy donors dodge higher federal taxes,” Hiner said. “The new federal tax law limits federal deductibility of state and local taxes greater than $10,000. Many individuals in high-tax states pay state and local taxes that are well in excess of $10,000. In response, states with the most oppressive state and local taxes, with New York leading the way, created tax shelters to help high-income individuals avoid paying higher federal taxes. Sadly, they developed a scheme that shamelessly used charitable-giving laws, and now legitimate charities are also swept in by the proposed rule.”

Saving Taxpayer Dollars

Jarratt says TCS programs provide a net benefit to taxpayers by facilitating families’ use of privately funded education.

“These programs effectively save the state money, since fewer students are now served by state tax dollars,” Jarratt said. “Programs like this allow individuals the ability to direct money to education, instead of money going to the state and then hoping the state directs that money back to education. States creating TCS programs allow more students access to the education services they need.”

In addition to creating TCS programs, state lawmakers should use educational savings accounts (ESAs) to expand education freedom and maximize the effectiveness of taxpayers’ money, Jarratt says.

“Creating and increasing the limits on TCS programs is a great start,” Jarratt said. “These TCS programs can do more than just provide scholarships in that they could fund education savings accounts, which would allow more flexibility for students. An ESA allows students to pick courses at different schools, instead of just a single school.”

Expects Drop-Off in Donations

As currently proposed, the Treasury rule would punish TCS programs, reducing educational freedom, Hiner says.

“Scholarships awarded through state tax-credit scholarship programs, operated by public charities, could be negatively impacted by the proposed rule,” Hiner said. “A donor’s cost of making a charitable contribution that funds scholarships will increase. This will make charitable giving less attractive for donors, especially those who need advice of a tax accountant, and even if donations continue, they may be diminished to offset the donor’s increased cost of giving.”

‘We Can Do Better’

Elected officials at every level of government should use every tool available to them, including tax policy, to promote localism and education freedom, Hiner says.

“Lawmakers would be wise to promote the virtues of state-based education policy, directing attention to the value of developing education without being led by the heavy hand of national government agencies, national teacher unions, and national politics,” Hiner said. “Keep it local; let independent teachers and parents lead the way.

“Legislators could use their bully pulpit to promote the virtues of charitable giving, the kind of community support that is driven first and foremost as a way to improve the quality of life in a community,” Hiner said.

Hiner says parents and communities working together can be trusted to succeed where government fails.

“Reliance on government produces unreliable results,” Hiner said. “We can do better.”

Sarah Quinlan (think@heartland.org) writes from New York City, New York.
Energy prices in Indiana are projected to fall during the next year, a result of ripple effects from the federal Tax Cuts and Jobs Act (TCJA).

The Indiana Utility Regulatory Commission approved a proposal from Vectren Energy to begin lowering customer prices, giving the company the go-ahead to pass along its reduced costs of doing business.

Vectren customers’ bills will be reduced by up to $90 over 12 months, and users of natural gas will see up to $35 in savings.

TCJA, signed by President Donald Trump in 2017, cut taxes by an estimated $1.5 trillion, among other reforms.

**Widespread Ripple Effects**

H. Sterling Burnett, a senior fellow on energy and environmental policy for The Heartland Institute, which publishes *Budget & Tax News*, says more affordable energy is a less-visible but very real benefit of tax reform.

“It’s a little-recognized benefit of the tax reform act that was passed,” Burnett said. “People across the nation are benefiting from lower electric power prices, lower water prices, and lower utility prices because of this act. Businesses pass along the savings from the taxes to the public. That should be recognized. It deserves mention.”

John Kartch, vice president of communications for Americans for Tax Reform, says the Trump-GOP tax reform has had profound benefits for countless individuals all across the country.

“There are more than 130 million customers paying lower utility rates because of the tax cuts,” Kartch said. “That is a conservative estimate. The actual number is probably much higher, but we can document at least 130 million customers. A customer is anyone who gets a bill. It could be a house with one senior citizen; it could be a family of five; it could be a factory that employs 50. Think about that: The actual number of people helped is much greater.”

**Media Ignoring Good News**

Burnett says biased journalists who dislike Trump and his fellow Republicans have downplayed the story of the tax reform’s continuing ripple effects.

“Every time you pay your bill, you need to thank the legislators that passed the tax cut, because it’s costing you less for power than it would have otherwise,” Burnett said. “The media hasn’t been overly effusive about the benefits of the tax cut. They’re not on Trump’s side. They’re not on the Republicans’ side.”

**‘Nice Lesson on Taxes’**

Kartch says the beneficial effect of tax reform on utility prices is a good object lesson.

“It is a nice lesson on taxes: If you are a household and you are saving $100 on your electricity bill, $50 on your water bill, $50 on your gas bill, in a year that really adds up,” Kartch said. “You can use that for several tanks of gas, groceries, part of a weekend trip, or something that you needed for your family. "When you look at it all together, the State of Indiana, it totals many millions of dollars," Kartch said. "Just think of many millions of dollars entering productive use in the private economy, and not being sent to the government. That’s great.”

Jeff Reynolds (jeffreyreynolds@comcast.net) writes from Portland, Oregon.
Virginia Tax Deduction Glitch Raises Residents’ Taxes

By Tyler Arnold

A n outdated Virginia law will raise many people’s income taxes by preventing them from using some of the benefits enacted by the Tax Cuts and Jobs Act (TCJA).

The law signed by President Donald Trump on December 22, 2017, reduced most individual income tax rates, permanently cut the corporate income tax rate from 35 percent to 21 percent, ended the unorthodox practice of taxing American businesses’ profits earned in other countries, and cut taxes by an estimated $1.5 trillion. TCJA also increases the standard amount of income considered tax-free from $12,000 to $24,000.

Virginia law requires state income tax deductions to match federal deductions, but Virginia’s standard deduction is $6,000. Should Virginia’s lawmakers do nothing to update the statutes to reflect the increased federal standard income-tax deduction, the state’s taxpayers would only be permitted to write off $6,000 of income or individually itemize deductions, instead of benefiting from the full $24,000 federal standard deduction.

Virginia state Rep. Richard Bell (R-Staunton), sponsor of House Bill 1618, which would update the state’s tax code, says a failure to act would sadde Virginia residents with an unnecessary increase in their tax burdens.

"I believe it would be disingenuous at best, dishonest at worst, if officials in Richmond were to choose to do nothing and accept and spend this tax windfall to the state. This obviously is an unintentional consequence of the federal Tax Cuts and Jobs Act."

David Stadelmyer, Virginia Resident

Say Inaction Is ‘Unacceptable’

Virginia state Rep. Richard Bell (R-Staunton), sponsor of House Bill 1618, which would update the state’s tax code, says a failure to act would saddle Virginia residents with an unnecessary increase in their tax burdens.

"Unless Virginia raises its own standard deduction significantly, many folks will be faced with an increased tax bill from the state that will more than offset any savings in the federal tax reform plan," Bell said. “That is simply unacceptable to me.”

David Stadelmyer, a Virginia resident, says it would be greedy of lawmakers to refuse to correct the glitch in the state’s tax code.

"I believe it would be disingenuous at best, dishonest at worst, if officials in Richmond were to choose to do nothing and accept and spend this tax windfall to the state," Stadelmyer said. “This obviously is an unintentional consequence of the federal Tax Cuts and Jobs Act.”

Stadelmyer says the glitch is effectively a tax hike on middle-income people.

“More-affluent taxpayers likely have tax situations where they may still itemize, with more highly assessed real estate and vehicles,” Stadelmyer said. “Therefore, this is effectively a tax increase on the Virginia middle class.”

Suggests Special Session

Stafford County, Virginia Commissioner Scott Mayausky says Virginia lawmakers can prevent the coming tax hike.

"Virginia could call a special session and pass legislation instructing the Virginia Department of Taxation to create an itemized deduction form that mirrors the federal Schedule A," Mayausky said. “This would allow taxpayers to take advantage of the higher standard deduction on the federal return and still allow them to itemize on the state form.”

Did You Know?

You Can Now Choose For Yourself!

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Visit WorkersChoose.org to learn about your newly-protected rights!
Plenty of Fat in Federal Government Spending, Study Finds

By Andrew Berger

A new study suggests eliminating duplicative, inefficient, and improper federal spending could save up to $3.1 trillion in taxpayer money over the next five years.


The targeted programs include projects exceeding their original budgets and durations, such as the U.S. Air Force’s F-135 fighter jet development program, corporate-welfare items such as sugar and dairy farmer subsidy programs, and nonessential agencies such as the National Endowment for the Arts.

‘An Incredibly Important Story’

CAGW Communications Director Curtis Kalin says reducing the amount of improper payments by the U.S. Department of Health and Human Services and other such agencies would have a significant impact on the deficit.

“Improper payments across the government is an incredibly important story that doesn’t get as much coverage as it should,” Kalin said.

Improper payments by federal government departments and agencies may be caused by clerical errors, such as inputting an incorrect dollar amount. Improper payments may also be a result of government contractors deliberately defrauding taxpayers.

More than $140 billion in improper payments are made every year. Kalin says. The federal government tracks and publicly discloses those payments and sets reduction targets.

Casting Doubt

Kalin says the government’s habit of spending money in error takes resources away from the proper recipients and taxpayers.

“Every dollar [of improper payments] that goes out the door in the name of taking care of people doesn’t wind up taking care of people,” Kalin said. “The same thing is true with certain longstanding federal programs, such as the Department of Defense’s F-35 program. And it’s not just that taxpayers are getting ripped off. Improper payments and wasteful spending undermine the fundamental reason and motivation for apportioning the funds in the first place.”

Identifying After the Fact

Kalin says the federal government does not do enough to ensure the accuracy of payments before they’re sent out.

“The problem is that they [improper payments] are not discovered until the money is already out the door,” Kalin said. “There are very few mechanisms to be found anywhere in the federal government that verify and validate apportioned funds before they are actually paid out.”

Improper payments are often caught by back-end accounting processes and audits, conducted after the money has been spent, Kalin says.

“Then we find out that we lost this much money,” Kalin said. “It’s a longstanding problem, but knowledge of it has not translated into any response to make changes.”

Ten to 20 Percent Misspent

Improper payments by the federal government average about 10 percent of each department’s budget, and they can run as high as 20 percent in some departments or agencies, the report states.

“There is more fraud on the federal-spending ‘credit card’ than occurs on actual credit cards, Kalin says.

“The difference is that Visa or MasterCard can shut down your card,” Kalin said. “Either by law or custom, that doesn’t happen in the federal government, which has opted for measurement after the fact.”

The “Prime Cuts” report is even more relevant now than in past years, says CAGW President Tom Schatz.

“‘Prime Cuts 2018’ is an invaluable resource for them to achieve that objective.”

TOM SCHATZ
PRESIDENT
CITIZENS AGAINST GOVERNMENT WASTE

As the U.S. budget hurls toward trillion-dollar deficits and with the national debt exceeding $21 trillion, ‘Prime Cuts 2018’ is needed now, more than ever. The only way to put our country on a path toward fiscal sanity is for leaders to make bold decisions to reduce waste, fraud, abuse, and mismanagement, and ‘Prime Cuts 2018’ is an invaluable resource for them to achieve that objective.”

Andrew Burger (info@watchdog.org) is a contributor to Watchdog.org, where an earlier version of this article was published. Reprinted with permission.
By Ashley Herzog

Arizona voters will not decide whether to levy a wealth surcharge on high-income households.

The state Supreme Court removed Proposition 207, the Investment in Education Act, from the November ballot because of inaccuracies in the language used to collect signatures.

The petition, submitted in July, stated approval of the measure would increase the tax rate on individuals with annual incomes exceeding $250,000 by 3.4 percent, on top of the current 4.54 percent rate, instead of the actual 3.45 percentage point surcharge that was planned, a far greater increase.

Those earning more than $500,000 or with a household income exceeding $1 million would have been hit with a 5.46 percentage point surcharge, a 98 percent increase.

About 60 percent of the revenue from the new surcharge would have been earmarked for salary increases for government school teachers, on top of a 19 percent pay hike already included in the state’s biennial budget, the initiative stated.

‘Never a Good Idea’

Arizona state Rep. Mark Finchem (R-Tucson) says deciding tax policy and other complex ideas by popular vote is a recipe for disaster.

“Tax policy set without hearings and close examination is never a good idea,” Finchem said. “I do not believe it is healthy for a state to implement tax policy at the ballot box, because there are too many unintended consequences that can arise without full vetting.”

Kevin McCarthy, a senior research analyst for the Arizona Tax Research Association, says the proposed tax hike would have had many bad effects.

“There is no doubt a tax increase will increase revenues,” McCarthy said. “However, a 100 percent rate increase will absolutely influence business decisions, which negatively impact base revenues. Businesses model their cost structure to the last dime. Significantly altering their costs must change their decisions, whether it’s foregoing future hiring, an expansion, or adding locations. Substantially increasing their costs will retard growth.”

“While a minor rate change may not force a business to change its behavior, a massive and instantaneous increase is far more likely to create negative dynamic revenue impacts,” McCarthy said.

Chasing Away Prosperity

Finchem says the measure would have encouraged high-performing workers and job-creators to leave the state, instead of luring productive out-of-staters to move there.

“It has been said by many, ‘I’ve never been hired by a poor man,’” Finchem said. “Wealth provides capital that is used to manufacture goods or organize services. Since wealth is a coward, and it knows no loyalty and is not patriotic, it will go to the safest harbor, relative to the risk it is exposed to.”

“Arizona is a tax-refugee state that showed 7.5 percent economic growth at the end of Fiscal Year 2018. Proposition 207 would have abruptly ended that. There is never a winner in class warfare and wealth envy, only losers.”

MARK FINCHEM
ARIZONA STATE REPRESENTATIVE (R-TUCSON)

Clemency for the Golden Goose

McCarthy says the measure would have wrecked the state’s economy and fiscal condition.

“The leading peer-reviewed study of tax increases on high-income filers, from Varner and Young (“Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data,” American Sociological Review, June 2016), concludes that for every 10 percent rate increase, 1 percent of high-income filers will move and another 1 percent who would have moved to Arizona will move elsewhere,” McCarthy said.

“The proposed 100 percent rate increase projected to flush 10 percent of high-income filers and prevent the same number of high-income migrants from moving to Arizona.”

“Losing 20 percent of future high-income and small-business tax filers represents a massive cut in base revenues and untold downstream economic impacts,” McCarthy said.

Finchem says Arizona’s financial success is a result of the state’s relatively low tax burden.

“What is interesting to note is that the Laffer Curve has once again been proven to be valid,” Finchem said, citing economist Arthur Laffer’s observation that raising taxes can reduce revenues by discouraging economic activity, whereas lowering taxes can increase revenues. “We ended the fiscal year 2018 budget over-performing against plan, in large part because we reduced taxes again.”

‘Awful Public Policy’

McCarthy says the ballot measure would have unfairly targeted one portion of the population to shoulder an increased tax burden.

“Funding public schools is a mandatory requirement of the state, and the financial burden should be an obligation of all Arizonans,” McCarthy said. “Isolating teacher pay raises on less than two percent of the population is awful public policy and should be rejected.”

Ashley Herzog (aebristow85@gmail.com) writes from Avon Lake, Ohio.

Department of Labor: Strong Economic Growth Continues

By Jesse Hathaway

The trend of more Americans finding work and staying employed has continued throughout 2018, as the nation’s economic machine stayed in top gear, new statistics released by the U.S. Department of Labor’s Bureau of Labor Statistics (BLS) show.

Economic conditions improved once again in September, according to BLS’ October 5 report of the previous month’s job situation and economic indicators.

The national unemployment rate fell from 3.9 percent to 3.7 percent in September, the lowest percentage since December 1969.

Business owners created 230,000 new jobs in September, indicating unemployment rates may fall as low as 3 percent by September 2019 if current trends continue.

“The labor market is in excellent shape heading into the end of 2018, perhaps the best it has been in 50 years,” PNC Bank Chief Economist Gus Faucher told The Hill’s Vicki Needham for an October 5 story.

Jesse Hathaway (jhathaway@heartland.org) is managing editor of Budget & Tax News.
HAS THE ENVIRONMENTAL MOVEMENT GONE TOO FAR?

Patrick Moore, Ph.D.

Patrick Moore has been a leader in the international environmental field for over 30 years. He is a founding member of Greenpeace and served for nine years as President of Greenpeace Canada and seven years as a Director of Greenpeace International.

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Popularity of Homeschooling Is Increasing Among KY Parents

By Owen Macaulay

Homeschooling is an increasingly popular choice for Kentucky parents who want to improve their children’s education, according to a report presented to the Kentucky General Assembly’s Education Assessment and Accountability Review Subcommittee. More than 26,500 families, or about 3.6 percent of all Kentucky families, homeschool their children, according to testimony presented by Kentucky Office of Education Accountability Analyst Deborah Nelson in September. Nationwide, about 3.3 percent of all school-age children are homeschooled.

A Multitude of Reasons

Milton Gaither, a professor of education at Messiah College, a private college in Pennsylvania, says there are several reasons parents choose home education for their children.

“I can say that advocates will argue that homeschooling allows for more flexibility in curriculum, family scheduling, child interests, etc.,” Gaither said. “They will note that it strengthens family bonds and facilitates transfer of religious and/or moral convictions from one generation to the next. They will say that it spares children the trauma of bullying, coarse peer culture, hyper-regimented curriculum and standardized testing, burned-out teachers, and overcrowded and underfunded schools.”

Escaping Government Schools

Lora Farrell, president of Pennyroyal Area Christian Home Educators of Kentucky, a home education cooperative based in Hopkinsville, Kentucky, says she knows of families that choose homeschooling because of the poor quality of government schools.

“Recently, I have seen many families begin to homeschool from a reactionary standpoint,” Farrell said. “They had a bad experience in traditional school, whether it was bullying or a school that wouldn’t or couldn’t meet their child’s special needs or something else, and they needed to homeschool. I also see families begin to homeschool out of fear of the growing violence happening in schools.”

More Homeschooling Expected

Farrell says she expects homeschooling to become more popular with time.

“I believe that more and more people are seeing the benefits of homeschooling and that the numbers of families who choose it will continue to grow,” Farrell said. “Homeschooling has become such a popular educational choice that there are more opportunities now than ever before.”

‘Their Children Are Thriving’

Many parents do a superior job of educating their children, and lawmakers should encourage more education freedom, Farrell says.

“The vast majority of homeschooling families are doing a phenomenal job of educating their children, and their children are thriving,” Farrell said. “Instead of hampering us with more regulations, allow us the freedom to choose the best for our families and to educate our children in the best way for them as individuals rather than have to meet national standards. Support us, rather than be suspicious of us.”

Owen Macaulay (omacaulay@hillsdale.edu) writes from Hillsdale, Michigan.
New Jersey Gas Tax Goes Up Again in October

By Brandi Wielgopolski

New Jersey drivers are paying even more at the pump, as the state’s gasoline tax went up again in October. The state’s excise tax on gasoline rose by 4.3 cents on October 1, increasing to 41.4 cents per gallon. Gasoline taxes in New Jersey are now the fifth-highest in the country.

In 2016, then-Gov. Chris Christie signed Assembly Bill 12 (A.B. 12) into law, increasing the state’s gas tax by 23 cents, cutting the sales tax from 7 percent to 6.625 percent, and phasing out the state’s death tax over two years. A.B. 12 also created a mechanism authorizing the state treasurer to change the gasoline tax rate as necessary to maintain a $2 billion balance in the state’s Transportation Trust Fund. In fiscal year 2017, the fund was $43 million short of the target, triggering a tax hike in fiscal year 2018.

Better Mileage, Higher Taxes

Jonathan Williams, chief economist for the American Legislative Exchange Council and a policy advisor for The Heartland Institute, which publishes Budget & Tax News, says many states are raising gas taxes as fuel efficiency increases.

“Working with legislators across the country, we’ve seen a lot of gas-tax battles emerge over the last five to 10 years,” Williams said. “Many states, even Republican states, have raised the gas tax to help make up for the consumption shortage.”

Diminishing Returns

Regina Egea, president of the Garden State Initiative, says studies demonstrate previous gas tax hikes caused New Jersey residents to buy less gasoline.

“AAA’s recent report shows the volumes being sold in New Jersey are down 17.7 million gallons, year over year,” Egea said. “It’s unsurprising to anybody who understands competitive markets, that when you raise the price you diminish demand, and that is what happened here. Fewer gallons were sold, because the tax went up.

“Increasing the gas tax another 4.3 cents will only diminish that volume even further,” Egea said. “Volumes are going to go down, and there is no cap on the Treasurer’s ability to raise the tax rate, as long as they are using it to cover the $2 billion roadwork project, which this increase is intended to cover.”

Theory vs. Practice

Williams says the actions of many state lawmakers don’t match their words regarding gas taxes and road funding.

“In theory, at least, gas taxes can be a user fee, if spent appropriately,” Williams said. “When you peel back the onion on this issue, however, you find that many states are selling gas taxes to the public as a user fee, then using the tax dollars for things far apart from road construction and maintenance.”

Williams says more states should require that gas tax revenue be used solely for highway work and not unrelated pet projects.

“Only about 25 of the 50 states earmark and protect gas tax revenue exclusively for road construction and maintenance,” Williams said. “That is actually a very key policy in this whole debate. If states do not protect the gas tax revenue for road construction and maintenance exclusively, they run into not just policy problems but a whole slew of political problems. When you look at public polling, gasoline taxes are one of the most hated taxes in America.”

‘This Isn’t a Luxury Tax’

Egea says the series of gas tax hikes is making New Jersey too expensive a place to live for many people, especially those in low-income households.

“This isn’t a luxury tax,” Egea said. “The users run the gamut of both income levels and geography in the state, so this gas tax increase is impacting everyone. If you think about that, then of course someone who does not have as much disposable income has to spend more on a basic need like gasoline. That is going to hurt them more than it will hurt people in the upper-income levels.

“This tax increase is one more notch in the dagger that is making New Jersey more and more unaffordable,” Egea said.

Brandi Wielgopolski (brandi.wielgopolski@gmail.com) writes from Columbus, Ohio.
San Francisco Voters to Consider Taxing Ridesharing Services

By Sarah Quinlan

Voters in San Francisco, California will consider a ballot question that would add a 3.25 percent tax on rides by peer-to-peer transportation network companies such as Lyft and Uber, two popular services connecting drivers and passengers through mobile phone applications.

Assembly Bill 1184 (A.B. 1184), sponsored by state Rep. Phil Ting (D-San Francisco), authorizes the City and County of San Francisco to ask voters in November 2019 to approve a 3.25 percent tax on trips originating in the city. Revenue from the new tax would be dedicated to “transportation operations.”

Gov. Jerry Brown signed A.B. 1184 into law on September 21.

Financial Pain by the Bay

A tax on ridesharing services would make living in already-costly San Francisco even more expensive, says Will Swaim, president of the California Policy Center.

“The Economist recently wrote a fairly definitive piece on the city’s appalling quality of life: the high cost of living, unaffordable housing because of limits on new home construction, failing city services, unfunded pension liabilities for public workers that boost the call for new taxes from government-[employee] union leaders, and the city’s worst-in-the-nation homeless crisis,” Swaim said.

Swaim says San Francisco’s elected officials seem to believe the answer to failed government programs is more government programs. “San Francisco has been run for decades by men and women dedicated to the idea that each public policy problem is easily solved by a government program,” Swaim says. “When those programs backfire—and in San Francisco, they often do—the answer is invariably more self-sabotaging regulation.”

Stack-Martinez says drivers like her may be the ones stuck paying the new levy. “Even if it is signed into law, I don’t think that law will stipulate to Uber and Lyft who ultimately is paying that tax in the end,” Stack-Martinez said. “I think the onus is going to be on Uber and Lyft to say, ‘We’re going to take this from the driver’s fare,’ or, ‘We’re going to tack it on top of the fare, collect the tax money, and then Uber and Lyft is going to pay that tax.’”

“Taxes such as this one are like termites: They eat at the foundation of the community,” Swaim said.

Benefits Drivers, Passengers

Rebecca Stack-Martinez, a San Francisco resident and driver for Lyft and Uber, says she began driving for the companies in January in order to earn money on a flexible schedule.

“It was more out of necessity than out of interest,” Martinez said. “I was a full-time student doing a master’s program, and what attracted me to being a rideshare driver was the flexibility of being able to go when I did and having a vehicle that I didn’t really drive much, so it was like, well, I could put that to use and make some extra cash while I’m going to school.”

Ridesharing leaves both drivers and riders better off, by offering more choices for on-demand transportation, Swaim says.

“They’re cheaper than taxis and especially good for tourists,” Swaim said. “Have you ever driven in San Francisco? It’s a horror show. Taxis were outrageous: a classic crony rip-off of the public. Uber and Lyft have forced every other business, including public agencies, to get better. The city that brags of its forward-thinking tech community frequently extorts those companies’ workers and customers.”

Stack-Martinez says she’s concerned about how the proposed tax will affect her income as a driver. “I’m concerned that it’s going to affect my bottom line,” Stack-Martinez said. “Who’s going to pay for that tax? I get that the passengers themselves are initially going to pay for that, but who’s taking on that tax? Is that going to then come from the drivers’ fees and fares, the portion that we’re earning—is that going to come out of there?”

REBECCA STACK-MARTINEZ
SAN FRANCISCO RESIDENT
LYFT AND UBER DRIVER

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Wonders Who Will Pay It

Stack-Martinez says she’s concerned about how the proposed tax will affect her income as a driver.

“Who’s going to pay for that tax? I get that the passengers themselves are initially going to pay for that, but who’s taking on that tax? Is that going to then come from the drivers’ fees and fares, the portion that we’re earning—is that going to come out of there?”

Official Connections:

Hudson, Ohio Voters May Consider Tax Hike for Municipal Broadband

By Johnny Kampis

The Hudson, Ohio City Council will consider placing a question before voters to approve increasing the city’s property taxes to generate revenue for a proposed municipal-broadband network.

The City Council will consider the referendum question at its November 13 meeting, after agreeing in May to delay the vote.

The ballot question would ask voters in May 2019 to approve increasing property taxes by 2.7 mills, meaning an additional $270 for a home valued at $100,000.

In 2016, Hudson created Velocity, a taxpayer-funded internet service provider for government facilities and private businesses. The revenue from the property tax hike, if approved, would expand Velocity to allow residential customers to subscribe. The proposed Velocity expansion is projected to cost taxpayers $21 million.

Welcomed the Delay

According to MytownNEO.com reporter Phil Keren, Hudson City Councilwoman Beth Bigham (Ward 4) said the delayed vote was a welcome development.

“It gave me the peace of mind that the others are willing to deliberate the issue,” Bigham said in May.

City Councilman Hal DeSaussure (at large) told MyTownNEO in May he expected the vote to go forward, as it is now.

“I’m expecting that we will have a framework of additional information that we can then use to make a decision [in November],” DeSaussure said.

City Councilman Alex Keleman (Ward 3), who is also a business owner in the city, says it’s wrong to allow government agencies to compete with private-sector businesses.

“They try to compete like they’re business people,” Keleman told the Taxpayers Protection Alliance in September. “As a business owner, I find that insulting. I don’t try to compete like I’m the government.”

Some Use, Everybody Pays

Keleman says it’s unfair to charge everyone for services not everybody may use or want.

“Everybody has to pay the $27, whether they get the service or not,” Keleman said. “Why should 100 percent of the people pay for a service that 40 percent of the people would use?”

Failure in NC

Ten years after building a taxpayer-funded broadband service similar to Velocity, the City of Salisbury, North Carolina is getting out of the internet business.

Hotwire Communications, an internet service provider with headquarters in Florida, took responsibility in July for the operation and maintenance of Salisbury, North Carolina’s municipal broadband network, Fibrant.

In 2008, Salisbury issued $33.56 million in new public debt to build Fibrant, a 350-mile-long network providing data, voice, and video services.

On May 8, 81 percent of voters approved a measure proposing to lease the city’s internet infrastructure to Hotwire for the next 20 years.

Questions the Numbers

Keleman says he’s concerned government estimates of the costs of the Hudson plan are too optimistic and will lead to an incomplete expansion or bailouts from the city’s general fund to pay for a shortfall.

“We’re spending $21 million based on a 30-page Power Point presentation,” Keleman said. “We’re just supposed to take their numbers and say OK.”

Keleman says the government committee studying the issue may be biased by the City Council’s refusal to remove the referendum question from consideration by voters.

“I don’t hold out a lot of hope that a committee is set up to be impartial or will give us an independent view,” Keleman said. “Our reluctance to remove the existing legislation and its taxpayer-funded solution only demonstrates that some are seeking citizen validation rather than more information.”

Johnny Kampis (jkampis@watchdog.org) is an investigative reporter for the Taxpayers Protection Alliance Foundation. An earlier version of this article was published at Watchdog.org. Reprinted with permission.

CBO: Federal Deficit Tops $782 Billion in 2018

By Jesse Hathaway

The Congressional Budget Office (CBO) reports the federal government’s budget deficit expanded to $782 billion in fiscal year 2018, a 17 percent increase over the previous year’s shortfall.

According to The Hill reporter Niv Ellis, the deficit-to-GDP ratio, which compares the federal deficit to the value of all economic activity in the nation, increased from 2.4 percent in 2017 to 3.9 percent, and it could have been higher.

“The federal deficit likely would have ticked higher were it not for the timing of certain payments based on when weekends fell,” Ellis wrote on October 5. “Without the shifted payments, CBO said, the deficit would have reached $826 billion, a 24 percent rise equivalent to 4.1 percent of GDP.”

An increase in government spending while taxes remained flat caused the deficit to rise, Ellis wrote.

“The 2018 fiscal year coincided with the GOP tax law going into effect, cutting back revenues, in addition to a bipartisan spending deal which juiced federal outlays.” Ellis wrote. “As spending rose 3 percent, revenues remained flat, CBO said.”

Official government projections indicate the federal deficit will continue growing, Ellis wrote.

CBO projects that the deficit will near $1 trillion in fiscal year 2019, which began on October 1.”

Jesse Hathaway (jhathaway@heartland.org) is managing editor of Budget & Tax News.
Michigan Legislature Enacts Minimum-Wage Hikes

By Savannah Edgens

The Michigan Legislature approved Legislative Initiated Petition 3, an indirect initiated state statute that will increase the state’s minimum wage over the next four years.

Starting in 2019, the government-mandated wage floor will begin increasing from its current rate of $9.50 per hour to $12 in 2022. After 2023, minimum-wage hikes will be tied to changes in the U.S. Bureau of Labor Statistics’ Consumer Price Index.

After a sufficient number of signatures for a ballot initiative are submitted to the Michigan secretary of state, the legislature has 40 days to enact the proposal or reject it and place the question before voters.

The secretary of state verified the submission of signatures collected by One Fair Wage Michigan, the state affiliate of a nonprofit organization funded by the Hotel Employees and Restaurant Employees International Union, on August 27, triggering the initiated statute process. The approval by the legislature means the initiative initiated statute process. The approval by the legislature means the initiative initiated statute process. The approval by the legislature means the initiative initiated statute process. The approval by the legislature means the initiative initiated statute process. The approval by the legislature means the initiative initiated statute process. The approval by the legislature means the initiative initiated statute process.

The measure, formally known as Public Act 337, will take effect 90 days after the legislature adjourns for the year.

Says Workers Pay the Price

Todd Gabel, a clinical assistant professor at the University of Texas at Arlington and senior fellow with the Fraser Institute, says minimum-wage hikes harm workers instead of helping them.

Gabel is also a policy advisor for The Heartland Institute, which publishes Budget & Tax News.

“Any time you increase the minimum wage, the biggest impact will be on the workers themselves. It could be a slowdown in hiring, or it could be that the employers are going to cut back on hours for their employees. It could be a cutback in fringe benefits like health insurance.”

Rollbacks Advised

The method by which Michigan lawmakers enacted the measure gives them the ability to reverse course, says Gary Wolfram, a professor of economics at Hillsdale College.

“With initiated law, if you want it to pass, you need a three-fourths majority in both houses,” Wolfram said. “If you adopt a law, and you have a majority, you can amend it. A legislator may have voted for a minimum wage they knew they didn’t want, because now it’s a statute, so they can vote to amend it and take it back to where it was.”

Gabel says eliminating or reducing the minimum wage is a truly pro-worker policy.

“I’m a free-market kind of guy,” Gabel said. “I would recommend either a reduction or elimination of the minimum wage. We’ve seen other countries that have been successful with that. Of course, the United States has not always had a minimum wage, and other countries such as Sweden and Germany have other means of helping workers find employment.”

Suggests Free-Market Alternatives

Instead of mandating artificially high prices for labor, Wolfram says improving human capital and reducing government burdens on job-creators are the keys to boosting wages.

“You want to allow the markets to work, so lower taxes, reduce regulations, and make it so education is produced the same way cell phones are produced,” Wolfram said. “If you could move to a voucher system, where education is produced by the private sector, then you’d increase the quality of education, which would then increase the amount of product people could have.”

Savannah Edgens (savannah.edgens@gmail.com) writes from Gainesville, Florida.

U.S. Senate Committee Reviews FCC’s Rural Telecom Subsidy Cuts

By Jesse Hathaway

The U.S. Senate Commerce Committee heard testimony from business owners and telecommunications industry leaders affected by the Federal Communications Commission’s (FCC) decision to reduce subsidization of some internet service providers (ISPs).

FCC collects about $10 billion annually from telecom providers to promote voice and broadband-infrastructure construction in rural areas.

Owners of local ISPs and national telecommunication companies also spoke at the October 4 hearing. No FCC representatives were scheduled to appear.

Budget-control measures at the FCC have reduced payments to ISPs in rural areas funded by the Universal Service Fund (USF), U.S. Sen. John Thune (R-SD) said at the hearing.

“It has been more than a year since Chairman Pai, Commissioner Carr, and Commissioner Rosenworcel sat before this committee and committed to conducting a thorough economic analysis of the impact of USF funding cuts on broadband deployment in rural areas before allowing any further reduction in the percentage of cost recovery for high cost areas,” Thune said. “Since that time, however, the cuts resulting from the FCC’s budget control mechanism have increased by almost 25 percent.”

Thune said FCC’s subsidy reductions are harming everyday Americans.

“There has been no economic analysis of what these cuts are doing to rural America, what they are doing to rural jobs, rural economic development, and the ability to live and learn, work, and play in communities like Pierre, South Dakota or Ocean Pointe, Hawaii; Yankton, South Dakota or Yakima, Washington,” Thune said.

Jesse Hathaway (jhathaway@heartland.org) is managing editor of Budget & Tax News.
Governments’ High Spending, Cheap Debt Are Likely to Lead to Disaster

By Todd Gabel

Central banks have brought a spiked punch bowl of cheap money to the party, to keep the fun and music going. When the punch runs out, the music stops, and the party’s over, driving home drunk will likely result in a crash.

Fueling Spending with Debt

It has been said economists have predicted nine of the past five recessions, suggesting economists’ worries about a looming crash can’t be trusted, even as nations engage in uncontrolled deficit spending that is largely monetized by inflationary policies by central banks in China, Europe, and the United States.

Governments’ solution to debt is simply to create more debt: Global debt is more than three times the size of the global economy today.

While that seems like a bad idea on the face of it, some economic theories hold that inflating the money supply lowers interest rates, helping governments find cheap money to build new infrastructure and other new programs.

However, artificially low interest rates can lead to systematic investment in areas of the economy where the standing economic fundamentals would otherwise not justify it. At some point, these “bad” bets must be reconciled, and the party comes to an end.

Low Price Inflation

Amid all this monetary expansion, prices have failed to show much excitement. In the United States, prices have increased by less than 3 percent annually over the past 10 years, a historically low rate.

This measure depends on which goods one measures, though. Home prices, along with other assets, including stocks, rare paintings, and cars, are not included in the Consumer Price Index measurement of inflation.

Home prices have increased, in real terms, by about 25 percent over the past decade. During that same period, real median household income has grown by 1.2 percent annually, meaning home prices in the United States have appreciated at 20 times the rate incomes have risen.

High asset prices and low consumer goods prices are historically consistent when the market is experiencing a speculative bubble.

During the 1920s, the U.S. money supply grew by 63 percent over the decade, driving real estate and stock prices to historic highs, but consumer prices remained flat. The reason for the disconnect was large gains in worker productivity. Falling costs of information, telecommunication, and transport costs, and increased specialization through global trade led to a natural deflationary trend in prices.

The real manifestation of the inflationary pressure was the creation of a difference between what the price level ought to have been and what it was. In 1929, that gap eventually led to a crash in the real-estate and stock markets.

Cueing a Recession

The U.S. money supply has expanded by 85 percent over the past 10 years, and the disconnect between asset prices and fundamentals has been cued up for the same fate.

Other countries’ central banks are beginning to take notice and are unwinding past inflation by gradually increasing interest rates. These actions will come with a price: The bad bets, previously papered over by inflation, become apparent to all.

The payment for those past bets will be the liquidation of those debts and the diversion of those resources to more valued ends, in the form of a recession.

When the payment for all this easy money comes due is anybody’s guess. Perhaps the sign will be the collapse of markets for alternative currencies such as Bitcoin, or a Chinese stock market run.

What will spark the bill’s due date is unknown, but it is known that the bill will come. It’s also unknown just how the bill will be paid. Will bad debts be liquidated, or will they instead be socialized, forcibly onto taxpayers, either current or future?

Regardless of who gets the bill, it will be huge.

Todd Gabel (tgabel@uta.edu) is a policy advisor for The Heartland Institute, a senior fellow at the Fraser Institute, and a visiting assistant professor at the University of Texas at Arlington.

White House Advisor: Economic Growth Will Relieve Deficit Problems

By Jesse Hathaway

Addressing the Economic Club of Washington, White House economic advisor Larry Kudlow said economic growth will reduce the severity of economic problems caused by the federal government’s many years of incurring debt.

The deficit will continue to expand over the next 10 years, according to projections published by the Congressional Budget Office (CBO) in May.

CBO’s “Budget and Economic Outlook: 2018 to 2028” projects the total amount of debt directly owed by the U.S. government will exceed $29 trillion, or 96 percent of the country’s gross domestic product, in 2028.

The federal deficit will top $1.526 trillion by 2028, CBO estimated, because of a forecasted 7.96 percent annual increase in mandatory outlays, including entitlement programs, over the next 10 years.

Interviewed by David Rubenstein, president of the Economic Club of Washington, Kudlow said economic growth was likely to reduce the burden of government spending on the U.S. economy.

“I’ve never been much of a deficit hawk,” Kudlow said. “I’m just saying growth is going to solve a good deal of that deficit and the debt burden on the economy. If we get the kind of growth we’re looking for over a period of 10 years or more, that is going to be an enormous help. I believe the deficit-to-GDP ratios will be coming down—not immediately, I get that. But I think they will over time.”

Jesse Hathaway (jhathaway@heartland.org) is managing editor of Budget & Tax News.
Lawmakers Should Demand Reform of Government Accounting Standards

By Sheila Weinberg

Lawmakers at every level of government currently have a unique opportunity to end the confusion and distortion surrounding the ways governments calculate their finances and report them on their financial statements, as the Governmental Accounting Standards Board (GASB) considers changes to its reporting recommendations.

Double Standards

GASB, a private, nongovernmental organization responsible for creating generally accepted public accounting procedures, currently requires state and local governments to prepare two sets of financial statements using different measurements for assets, liabilities, revenues, and expenditures.

One set of statements justifies the convoluted way in which governments calculate their balanced budgets while racking up millions and billions of dollars in debt, and the other set more accurately reports their financial conditions and the results of their financial activities.

Both sets of statements are reported in state and local governments’ Comprehensive Annual Financial Reports (CAFR). The more accurate financial statements are called “government-wide” statements and are prepared using an “economic resources measurement focus,” similar to the full accrual basis of accounting used by most businesses.

Government CAFRs are voluminous because both sets of financial statements are included. These “governmental funds” statements include balance sheets and statements of revenues and expenditures, with columns for each of the major governmental funds, including the general fund. These statements are prepared using a “modified accrual basis,” which is closer to the cash basis than accrual basis.

’No Conceptual Rationale’

Past GASB leaders have also argued for changes to how governments report their finances. In the Spring 2015 edition of the Journal of Government Financial Management, former GASB Chair Robert Attmore and former GASB Vice Chair and Research Director Martin Ives published an article titled “GASB's Governmental Fund Reporting Model Is Seriously Flawed.”

“There is no conceptual rationale for using a current financial resources measurement focus and modified accrual basis focus for reporting governmental funds by state and local governments,” Attmore and Ives wrote. “[A]lthough the financial statements purport to present fairly the governmental funds’ financial position and changes in financial position, GASB’s current financial reporting model results in incomplete and misleading information regarding those funds.”

The ways governments have reported their general and other funds enable them to keep millions—even billions—of dollars in deferred compensation and other costs off of operating statements and balance sheets.

For example, California’s general fund reports a positive fund balance of $5.8 billion, yet the government-wide statement of net position, or balance sheet, reports a negative net position of $21.3 billion. This is, effectively, a net pension liability of $80 billion and a net retiree health care liability of $29 billion.

The general fund’s income statement includes only the amount of money elected officials chose to pay into their government’s pension plan. It doesn’t show all of the pension benefits earned and the respective liability that has been incurred. This shortsighted method used to budget and report governmental funds makes it possible for officials to claim the budget is balanced while continuing to rack up enormous unfunded obligations and deficit spending.

Hiding Fiscal Holes

Truth in Accounting’s (TIA) latest Financial State of the States report, published in September, found 40 states have created a fiscal hole totaling more than $1.5 trillion, even though 49 states have balanced-budget requirements in place.

No Conceptual Rationale

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