Obama Unveils His Final Annual Budget Proposal

By Dustin Siggins

I
n his final annual budget proposal, President Barack Obama seeks significant spending increases, higher crude oil production taxes, and other tax hikes on individuals and businesses. Federal lawmakers, including U.S. Sen. Michael Enzi (R-WY) and U.S. Rep. Tom Price (R-GA), the respective chairmen of the U.S. House and Senate Budget Committees, have declined to hold any hearings on Obama’s budget plan, effectively stopping the proposal before it can be voted on.

Obama’s proposal was released in February.

Jonathan Bydlak, president of the Coalition to Reduce Spending, says Obama’s budget plan is irresponsible.

“Any budget that would spend more than $4 trillion, almost by definition, forgoes any reasonable semblance of fiscal responsibility,” Bydlak said. “But what’s more noteworthy is the budget’s reliance on rosy growth projections from the Office...”
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Obama Brags to Union Workers About Bailout of Auto Industry

By Luke Karnick

Before a January visit to the annual Detroit Auto Show, President Barack Obama visited employees at the United Auto Workers’ (UAW) General Motors (GM) training facility in Detroit, Michigan, where he praised the 2009 automotive industry bailout.

The Auto Industry Financing Program (AIFP), which was part of Obama’s larger 2009 economic bailout plan, gave $79.69 billion to U.S. car manufacturing companies General Motors and Chrysler Motors, as well as to their respective in-house financing companies. As part of the deal, the U.S. government purchased a majority of shares for each of the companies, and UAW received four times as much equity in General Motors per dollar of debt owed to it than secured bondholders received, which many experts have said is the exact opposite of what usually occurs during standard bankruptcy proceedings.

While the auto industry unions received significant financial support, many private stockholders lost their entire investment.

Sunken Costs

In late 2014, the U.S. Treasury Department announced the official end of the industry bailout and nationalization program, leaving $10 billion in taxpayer funds unrecovered and in the accounts of GM and Chrysler.

Dan Ikenson, director of the Cato Institute’s Herbert A. Stiefel Center for Trade Policy Studies, says GM and Chrysler benefited from an atmosphere “rife with panic.”

“The day after President Obama was elected, an entity in Michigan called the Center for Automotive Research published a report that said the auto industry is on the brink of collapse and three million jobs are at stake,” Ikenson said. “The estimate in that report was predicated on the idea that if GM went under, a bunch of auto part suppliers would go under, which would put Ford under, which would put more part suppliers under, then Chrysler, and more part suppliers, and then Honda, etc. It would ripple through the entire auto industry, and everybody in a job related to producing, selling, and fixing automobiles would be out of a job.”

Big Bad Bailouts

Mark Thornton, a senior fellow at the Mises Institute, says AIFP is an example of politically connected insiders using big government to protect themselves against change.

“I don’t think it was necessary,” Thornton said. “In fact, from an economic view, bailouts are a very bad thing, and restructuring and bankruptcy are a very good thing. That’s what’s supposed to happen in a correction: You disassemble the most inefficient areas of the economy. It’s very similar to the bank bailouts. We should have allowed some kind of restructuring or bankruptcy process with the banks and the automobile companies, so they would have been more efficient and competitive.”

In 2015, Americans purchased about 17.5 million vehicles, up 53.5 percent from 2009 levels, but Thornton says the automobile industry’s revitalization has nothing to do with AIFP.

“Historically, if you saw the automobile industry expanding and doing well, it meant the workforce was doing well,” Thornton said. “It meant there were good jobs available and wage rate increases. However, we’re not really seeing that. The unemployment rate has fallen, but the income of workers and the number of people in the workforce has actually been shrinking.”

Divorced from Productivity

Thornton says the auto industry and the U.S. economy as a whole are being artificially stimulated by government monetary policies.

“Much of the recovery we’ve seen in the last few years is due to the fact that interest rates for [automobile loans] are typically 8 to 10 percent, and today they’re down to about 4 percent.”

MARK THORNTON, SENIOR FELLOW, MISES INSTITUTE

“Much of the recovery we’ve seen in the last few years is due to the fact that interest rates for [automobile loans] are typically 8 to 10 percent, and today they’re down to about 4 percent.”

MARK THORNTON, SENIOR FELLOW, MISES INSTITUTE

INTERNET INFO


Luke Karnick (lkarnick@yahoo.com) writes from Indianapolis, Indiana.
President Obama Unveils His Final Budget Proposal

Continued from page 1

of Management and Budget that stand in stark contrast to those of the non-partisan Congressional Budget Office.”

Wishful Thinking

“By assuming higher rates of growth, the president’s budget is conveniently able to assume away larger deficits as a share of [Gross Domestic Product]. Add to that expected growth from the adoption of the president’s immigration agenda, which is unlikely to be enacted, and no adverse economic impact from new capital gains taxes and you have a budget that doesn’t reflect reality. Indeed, the budget relies almost entirely on tax hikes, rather than spending reduction, to reduce the deficit.”

Romina Boccia, deputy director of The Heritage Foundation’s Thomas A. Roe Institute for Economic Policy Studies, says Obama’s budget will add trillions of dollars in new spending.

“Under President Obama’s plan, spending will grow from the 2016 fiscal year level of $3.9 trillion, as reported in the Congressional Budget Office’s latest budget and economic projections, to $6.5 trillion in 2026,” Boccia said.

Very Small Silver Lining

Boccia says Obama’s budget does offer some small positive changes.

“The federal crop insurance program, an epitome of cronyism, is the largest agricultural program, costing about $8.5 billion a year,” Boccia said. “While Obama’s 2017 budget does little to address this out-of-control program, it would reduce the amount of the premium subsidy by 10 percent for farmers who select a revenue-based policy with the ‘harvest price option.’

“Reducing premium subsidies for revenue coverage with the harvest price option is a very small step in the right direction, but it is a far cry from what is needed,” Boccia said.

Calls for Better Ideas

Boccia says Congress can come up with far better ideas than what Obama has offered.

“Congress’ 2017 budget resolution should repeal Obamacare in its entirety,” Boccia said. “Repeal is essential to getting the nation’s health care entitlement spending under control and necessary for laying the groundwork for market-based and patient-centered health care reform.”

Boccia says taxpayers are entitled to expect their tax dollars to be used wisely.

“Any budget that would spend more than $4 trillion, almost by definition, forgoes any reasonable semblance of fiscal responsibility. But what’s more noteworthy is the budget’s reliance on rosy growth projections from the Office of Management and Budget that stand in stark contrast to those of the nonpartisan Congressional Budget Office.”

JONATHAN BYDLAK, PRESIDENT
COALITION TO REDUCE SPENDING

“The American people have a rightful expectation that Congress and federal agencies will be good stewards of taxpayer dollars,” Boccia said. “Wasteful spending and duplication is estimated to consume about $200 billion annually, or 5 percent of the budget. Eliminating wasteful spending where possible and strengthening controls and punishments for agency mismanagement helps to establish the moral authority to reduce spending in politically popular but fiscally unsustainable programs like Medicare, Medicaid, and Social Security.”

Dustin Siggins (dustinsiggins@gmail.com) writes from Washington, DC.

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West Virginia Lawmakers Override Gov. Tomblin’s Veto of Right-to-Work Bill

By James Wigderson

Hours after West Virginia Gov. Earl Tomblin (D) vetoed a bill to prohibit employers from requiring union membership as a condition of employment, West Virginia lawmakers voted to override the veto on February 12.

The new law, which takes effect on July 1, makes West Virginia the 26th state to pass this kind of economic reform, commonly called “right to work” (RTW). Most Americans live in states with right-to-work laws, and a majority of states now have such laws on the books.

John Deskins, an associate professor of economics at West Virginia University, says RTW laws empower workers and do not punish labor unions.

“Right-to-work policies mean that employees at unionized workplaces cannot be required to be a member of the union as a condition of employment,” Deskins said. “In other words, employees can still choose to form or join a union under a RTW policy, but they simply cannot be required to join.”

Deskins says empirical evidence shows right-to-work laws spur job creation.

“Evidence from rigorous econometric analyses shows RTW led to higher rates of long-run employment growth in states during the years 1993 through 2013,” Deskins said.

Increasing Jobs, Investments

Aparna Mathur, a resident scholar for economic policy at the American Enterprise Institute, says evidence indicates businesses are more likely to expand or relocate into states with right-to-work laws.

“For instance, Boeing built a new plant in South Carolina, an RTW state, and many foreign automobile brands also locate in RTW states, like Alabama, Mississippi, and Tennessee,” Mathur said. “Some research suggests that foreign investment increased in Oklahoma and Idaho, perhaps after these states passed RTW laws.”

Mathur says right to work allows employees to be voluntary members of labor organizations, instead of forcing them to be a part of an organization they don’t want to join.

“RTW laws and statutes remove union membership as a prerequisite for employment, as they make it illegal for labor unions and employers to enter into contracts that require employees to be fee-paying members of a union,” Mathur said. “The Taft-Hartley Act of 1947 allowed states to supersede union security provisions of the National Labor Relations Act by enacting RTW laws.”

Dependent on Coercion

Mathur says unions’ power depends on their ability to force people to join. Where union membership is not compulsory, union membership and unions’ political power decline.

“Unions oppose RTW because they can no longer force employees to be part of unions or to pay union dues,” Mathur said. “Union membership has been shown to decline significantly in states that passed RTW laws. The fewer people there are who contribute to or participate in a union, the lower the impact of the union on bargaining activity.”

James Wigderson (jameswigderson@gmail.com) writes from Waukesha, Wisconsin.

Little Rock, Ark. Voters OK New Tourist Tax

By Michael Bates

Voters in Little Rock, Arkansas have approved using revenue from a new tourism tax to fund capital improvements to local attractions.

In February, 7,990 residents, less than 7 percent of the city’s 121,455 registered voters, cast ballots approving diverting to the Arkansas Arts Center and a local park $37.5 million in new revenue from taxes approved in December 2015.

Including state taxes, the City of Little Rock now taxes visitors’ hotel and motel stays at a combined rate of 15 percent, exceeding the tax rates charged for hotels in New York City and other major cities.

David Ray, director of the Arkansas chapter of Americans for Prosperity, says people visiting Little Rock are now paying one of the highest bed taxes in the nation.

“According to a Consumer Reports article from 2014, this puts our tax higher than many of America’s largest cities, such as New York, Philadelphia, Phoenix, Dallas, and San Diego.”

David Ray, Director, Americans for Prosperity-Arkansas
Cleveland Browns, Columbus Group Pull Taxpayer Subsidy Request

By Matt Hurley

After public outcry, a nonprofit coalition of business owners has withdrawn its request for $5 million in taxpayer funds that would have been used to fund the construction of a new National Football League (NFL) training facility for the Cleveland Browns in Columbus, Ohio.

Working with the Browns, a privately owned NFL team, the Columbus Partnership, a regional economic development organization consisting of Columbus-area business leaders, requested $5 million in state taxpayer funds to help build a training facility in Columbus, located 145 miles southeast of Cleveland.

After the economic development organization’s plan became public knowledge, significant public opposition to the plan emerged, so the Columbus Partnership withdrew its request for the subsidy.

Taxpayers Get Sacked

Greg Lawson, a policy analyst with the Buckeye Institute for Public Policy Solutions, says handing out taxpayers’ money to private sports team owners and businesses is a bad deal for the public. “Rarely do taxpayers make out on these deals,” Lawson said. “While they may generate some economic gains temporarily, they rarely generate what is promised. … They also create ample opportunity for [what amounts to] blackmailing [the public], as team owners threaten to move their teams without expensive new taxpayer contributions.”

Lawson says another Ohio NFL team, the Cincinnati Bengals, exemplifies the cronyism inherent in sports stadium subsidies. “If you look at Paul Brown Stadium in Cincinnati, there is a classic example where sales tax revenues are being diverted from other community needs in order to fund the stadium,” Lawson said. “That is unfair to all the taxpayers.”

‘Sick and Tired’

David Williams, president of the Taxpayers Protection Alliance, says the public outcry about the proposed handout to the Browns was a welcome surprise. “On one hand, I am surprised, because sports fans and citizens tend to support subsidies for stadiums, because they think it will bring them a championship or a revitalization of the area where the facility is built,” said Williams. “But people are sick and tired of their tax dollars being wasted on frivolous and unnecessary projects like sports facilities. People are becoming better educated about these expenditures and are starting to realize that these stadiums are a waste of money and should be paid for by owners of the teams, who are in many cases billionaires.”

Williams says he hopes the rejection of the Browns’ corporate welfare request is the beginning of a trend. “With increased attention and visibility of the issue, fewer stadiums will be subsidized by taxpayers,” Williams said. “We hope that Cleveland leads the way in a nationwide rejection of taxpayer-funded stadiums.”

Matt Hurley (wmdtvmat@yahoo.com) writes from Cincinnati, Ohio.

Tennessee Lawmakers Propose Alternatives to Gas Tax Hike

By Dustin Siggins

Tennessee state legislators are proposing alternative ways to increase revenue for the state’s highway construction and maintenance fund, rather than relying on increasing gas taxes.

In January, Gov. Bill Haslam (R) announced he was backing away from an earlier proposal that would have increased the state’s gas tax to pay for $6.1 billion in proposed transportation infrastructure projects.

Since Haslam’s announcement, several alternative proposals have been offered to help for the infrastructure improvements. In January, state Sen. Mark Green (R-Clarksville) proposed increasing registration fees for electric and hybrid vehicles. Another proposal, sponsored by state Rep. Mark Pody (R-Lebanon) would divert revenue collected from sales taxes on car tires from the state’s general revenue fund to the highway fund.

Planning Ahead

Baruch Feigenbaum, a transportation policy analyst with the Reason Foundation, says lawmakers considering transportation funding should plan for the long term, not just immediate needs. “Withdrawing it legitimate needs more transportation funding—and I am not convinced that they do—they should take short- and long-term steps,” Feigenbaum said. “The best short-term step is indexing the fuel tax to inflation, to the [Corporate Average Fuel Economy] standards, or both. Due to inflation and increasing fuel-efficiency standards, less revenue is being collected.

“However, since it costs motorists more, action should only be taken if it is needed, and I mean needed, not wanted,” Feigenbaum said.

Long-Term Thinking

Feigenbaum says lawmakers should phase out old ideas, such as excise taxes on fuel. “The best long-term step is to enact mileage-based user fees,” Feigenbaum said. “Tennessee should consider a test program that allows drivers who choose the option to pay mileage-based user fees instead of gas taxes or electric vehicle fees. Once a mileage-based user fee is viable statewide, all gas taxes, tire fees, electric vehicle fees, etc. should be eliminated.”

By Any Other Name

Patrick Gleason, director of state affairs for Americans for Tax Reform, says “registration fee” is just another way to say “tax.” “States typically assess vehicle registration fees, which are car taxes by another name,” Gleason said. “Lawmakers in some states have sought to raise fees on hybrid vehicles to make up for the fact that hybrid vehicle usage reduces gas tax collections through increased fuel efficiency and reduced gas usage.”

Gleason says lawmakers should be honest with taxpayers and not try to hide transportation revenue hikes behind budget tricks. “If expanding and maintaining transportation infrastructure is a priority, then lawmakers should treat it as such, by making it a priority in the budget process,” Gleason said.

Dustin Siggins (dustinsiggins@gmail.com) writes from Washington, DC.
By Dustin Siggins

Lawmakers in Davis, California abandoned plans to ask voters to approve higher excise taxes on sweetened beverages and recreational marijuana, choosing to table discussions on the proposed sin taxes to a later date.

The Davis City Council (DCC) had been considering placing a ballot question to increase the cost of soda, energy drinks, and sweetened tea by 1 cent per ounce of sugar or “added caloric sweetener” on the June 2016 ballot, but DCC determined the issue should be opened up for public discussion before DCC would make a decision.

The initial proposal planned to give the proceeds from the excise tax to health-related government programs.

‘Little Impact’

Sherzod Abdukadirov, a research fellow in the Regulatory Studies Program at the Mercatus Center at George Mason University, says ‘soda taxes’ are mostly feel-good measures.

“The real problem with soda taxes is their ineffectiveness,” Abdukadirov said. “Numerous studies examined the impact of soda taxes and found that they have little impact on consumer purchasing behavior. This means that few consumers reduced their soda consumption in response to taxes.”

Abdukadirov says soda taxes may harm public health.

“Using soda taxes as a revenue mechanism to finance health programs has major downsides,” Abdukadirov said. “Sales taxes are highly regressive; they hurt the poorest consumers the most. In addition, by taxing low-income consumers, local governments effectively reduce their incomes. This leaves low-income consumers with less money to spend on other health-improving activities, such as visiting a doctor or purchasing medication. Thus, the tax may actually have a negative impact on their health.”

Substituting Goods

William Shughart II, research director at the Independent Institute, says Davis lawmakers did the right thing, even if they did it for the wrong reasons.

“The incidence of any tax—that is, where the burden falls—depends on the number of substitutes there are for the taxed good or service,” Shughart said. “The more substitutes available to consumers, the more elastic is the demand for the taxed product and the larger the loss in sales for the sellers as customers shift to untaxed or lesser taxed alternatives. I doubt that Davis’s policymakers ever heard of demand elasticity, but they were on the right track in refusing to impose a soda tax there.”

Complicated Effects

Shughart says excise taxes encourage tax avoidance.

“Virtually every state and many local governments include soft drinks in their general sales tax bases,” Shughart said. “Because sales taxes apply broadly to consumers’ purchases—although some states tax food bought to prepare at home at lower rates than other items and exempt purchases of things like prescription drugs, newspapers, and books—most of the tax gets shifted forward to consumers in the form of higher prices.

“A standard principle of public finance is that a tax rarely sticks where it lands,” Shughart said.

Dustin Siggins (dustinsiggins@yahoo.com) writes from Washington, DC.
Lawmakers in Oklahoma Propose Reneging on Taxpayer Relief Measures

By Michael Bates

Some Oklahoma lawmakers are proposing to renege on previously scheduled tax-relief measures that started earlier in 2016 as a way to deal with a projected $1.3 billion state budget shortfall.

State Sen. Mike Mazzei (R-Tulsa) is proposing returning the state’s top income tax rate to 5.25 percent, after it was lowered to 5 percent at the end of 2015. Mazzei’s bill, if signed into law, would void any scheduled income tax relief if the state government’s actual revenues miss projected levels. Voiding the scheduled tax relief would generate enough additional revenue to patch over about 10 percent of the state’s projected deficit.

The proposal was approved by the Oklahoma Senate Finance Committee in February.

Read My Lips

Jonathan Williams, vice president of the American Legislative Exchange Council’s Center for State Fiscal Reform, says lawmakers who break promises to taxpayers make their state less attractive.

“Whenever you’re dealing with tax cut phase-ins, government is basically making an implicit promise to the taxpayer, saying, ‘We’re going to give you future tax relief,’” Williams said. “If Oklahoma starts to set a precedent that whenever times get tough, we’re going to pull back promised tax relief, it certainly messes with investors and other people looking to bring investment capital into Oklahoma … they see that the rug may be pulled out from under them whenever things get tight in the budget.”

Living Within the State’s Means

Williams says Oklahoma legislators should look to actions taken by lawmakers in Washington State as an example of how to best deal with budget problems that might happen immediately after tax cuts go into effect.

“The Democratic governor came together with a bipartisan group of legislators and said, ‘Our economy is too weak for a tax increase, so we need to tighten our belts, just like moms and dads do around the kitchen table, or small business owners do every day,’” Williams said.

“‘They made the agencies come up with a mission statement, … why they exist and what success looks like. They made agency heads prioritize all of their programs. On a bipartisan basis, they cut over $2 billion without raising a dime of taxes.’

Calls Tax Hikes Unnecessary

Trent England, vice president for strategic initiatives at the Oklahoma Council of Public Affairs, says Oklahoma can balance its budget without resorting to tax hikes or service cuts.

“(The) Oklahoma State government still spends money covering losses on golf courses and paying for purely local priorities, like rodeos and festivals,” England said. “State agencies spend money on fancy advertising campaigns and branded merchandise. Beyond the most obvious areas to cut, many government processes are far less efficient than what goes on in the private sector. It may be unfortunate, but it usually does take a budget downturn to force government agencies to cut costs and find efficiencies. Of course, in the competitive private sector, this is how people operate every single day.”

Leviathan Awakens

England says government agencies seek to grow and advance their own self-interest, rather than do what is best for taxpayers.

“Every government program creates at least two interests,” England said. “One is the group of people who work within that program and the other is the program’s beneficiaries. The loudest voices are usually those of school superintendents and university administrators, probably because any hard look at the budget is going to raise questions about the high salaries and growing numbers of administrators within the education bureaucracy.”

England says Oklahoma is at a turning point.

“Critics of the tax cut, who made fun of it for being small, now insist it must be repealed,” England said. “The real debate is over the direction of the Oklahoma State government: Are we going to have smaller, more efficient government or bigger, more intrusive government?”

Michael Bates (blog@batesline.com) writes from Tulsa, Oklahoma.
House Backs Shutting Down ‘Operation Choke Point’

By Andy Torbett

In February, the U.S. House of Representatives approved a bill that would prevent government agencies from using financial regulatory powers to undermine or destroy businesses in disfavored industries, such as adult entertainment or firearm sales.

If approved by the U.S. Senate and signed into law, the Financial Institution Customer Protection Act of 2015, sponsored by U.S. Rep. Blaine Luetkemeyer (R-MO), would prohibit “a federal banking agency from formally or informally suggesting, requesting, or ordering a depository institution to terminate … a specific customer account,” as it has done through Operation Choke Point (OCP).

OCP, a U.S. Department of Justice (DOJ) initiative, was first disclosed in 2013. It involves investigations of banks doing business with merchants who sell products such as firearms and tobacco. OCP was executed by auditors from the Federal Deposit Insurance Corporation, effectively pressuring banks to drop clients in certain legal but politically unpopular industries.

‘Few Rights More Fundamental’

Brian Garst, director of policy for the Center for Freedom and Prosperity, says OCP is an example of runaway regulatory power.

“If bureaucrats arbitrarily deciding that certain businesses ought not be allowed to use financial services—effectively meaning they be made not to exist—is not a violation of the Constitution, then the document simply no longer has any meaning,” Garst said. “There are few rights more fundamental in a free society than the right to earn a living and engage in commerce. Any infringement upon that right must require much more than a vague distaste among regulators for a particular economic activity.”

‘Direct Assault’ on Freedom

Garst says OCP shows the government has been using regulatory power as a form of political power.

“Enabling one or more federal agencies to act as judge, jury, and executioner over legal businesses is a direct assault on the free market, and it has been a nightmare for those operating in the industries targeted by the administration,” Garst said.

Mark Calabria, director of financial regulation studies at the Cato Institute, says OCP has also harmed the economy.

“[OCP] further entangles the banking and political system, while potentially reducing consumer choice and driving many small businesses into failure, destroying jobs as well as the livelihood of the business owners,” Calabria said.

Runaway Regulators

Calabria says OCP is an obvious abuse of regulatory power. “This is a case of bureaucrats trying to abuse their powers to implement policies that they could not convince Congress to give them,” Calabria said. “Many of the targeted industries are simply ones that the Obama administration dislikes. The regulators are substituting their preferences for those of the public, believing themselves to be better informed.”

Andy Torbett (meconservativevoice@gmail.com) writes from Atkinson, Maine.

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[TIMELINE OF EVENTS]

June 1, 2015:

Congress Passes Permanent Ban on Internet Access Taxes

By D. Brady Nelson

Lawmakers in Congress approved a trade bill that included provisions prohibiting state and local governments from taxing Internet access or creating multiple or discriminatory taxes on online commerce.

In February, the U.S. Senate approved the Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA), a bill increasing congressional oversight over executive branch nominees and trade agreements. TFTEA contains a “rider,” an additional provision added to the bill, enacting the Permanent Internet Tax Freedom Act (PITFA).

Temporary Permanence

PITFA, a permanent version of the Internet Tax Freedom Act (ITFA), bars federal, state, and local governments from taxing Internet access, first enacted in 1998 and repeatedly renewed by lawmakers of both political parties. The most recent renewal occurred in September 2015, when ITFA was included in the Continuing Appropriations Act of 2016, a budget deal reached by Speaker of the House Rep. Paul Ryan (R-WI) and President Barack Obama.

Lawmakers and business organizations supporting a separate bill allowing local and state governments to tax businesses located outside of their physical borders, the Marketplace Fairness Act (MFA), had hoped to tie that measure to the Trade Facilitation and Trade Enforcement Act, but MFA was not included as a rider.

Bill Was Held ‘Hostage’

Katie McAuliffe says lawmakers were correct to attach PITFA to the trade bill and leave MFA behind. “There is really no reason why the ban on Internet access taxes has to be tied to an online sales tax,” McAuliffe said. “Unless the ban is a hostage, than those supporting the online sales tax shouldn’t have such a huge problem with the bills going through Congress separately. The ban is hugely popular [among both Democrats and Republicans] and across the nation. It really shouldn’t be a problem for the customs bill to pass the Senate with the Internet access tax ban included.”

Andrew Moylan, executive director and senior fellow of the R Street Institute, says PITFA and MFA had little in common.

“Taxpayers should be happy that the House has moved to put an end to the cynical ploy of combining the Internet access tax and Internet sales tax matters,” Moylan said. “Despite sharing the words ‘Internet’ and ‘tax,’ the two couldn’t be more dissimilar. Banning Internet access taxes is clearly constitutional, is wise policy to protect consumers, and is almost universally supported in Congress. Enacting an Internet sales tax bill, meanwhile, is constitutionally suspect, is spectacularly bad policy for economic growth, and is opposed by a broad swath of the American public.”

D. Brady Nelson (d.brady.nelson@me.com) writes from Washington, DC.
FCC Shifts Goalposts to Argue for More Regulation

By D. Brady Nelson

The Federal Communications Commission (FCC) issued a report concluding more regulation is needed to increase the spread of broadband Internet access in the nation.

FCC’s annual “Broadband Progress Report,” published in February, claims service providers are failing to upgrade the quality and speed of consumers’ broadband Internet access, creating a “digital divide” that leaves 17 percent of the population with low-quality access to the Internet.

In the report, FCC also includes a set of new definitions and standards the agency plans to enact to solve the problems the report identifies.

Tom Struble, policy counsel for TechFreedom, a nonpartisan public policy think tank focusing on digital issues, says the annual report was supposed to guide lawmakers’ policy decisions, not make policy.

“The FCC’s Section 706 report is a farce,” Struble said. “Section 706, [which was] enacted as one of the ‘miscellaneous’ provisions of the 1996 Telecommunications Act and not inserted into the Communications Act, unlike its neighboring provisions, was only ever intended to be a policy statement and a barometer for Congress in deciding whether further legislation was needed to update communications laws for the digital age.”

Changing Strategies

Struble says FCC was bruised by its loss in Comcast Corporation v. FCC, a 2010 lawsuit over the agency’s authority to restrict how private Internet service providers may set acceptable use policies for subscribers.

“It was not until 2010, when the FCC, grasping for straws in its effort to recover from the defeat in Comcast, grasping for straws in its effort to find authority to impose new regulations that ‘promote competition’ and ‘remove barriers’ to broadband deployment.”

Shifting the Goalposts

Katie McAuliffe, executive director of Digital Liberty, a nonprofit organization advocating policies for a consumer-driven technology and media market, says FCC often changes definitions and measurements to justify continual intervention in the market.

“In 2012, the FCC defined ‘broadband’ as 4 megabytes per second, even though providers were typically providing upwards of 6 megabytes per second. Many wireline providers are introducing one gigabyte speeds.”

“The FCC keeps upping its definition of broadband or what equals an acceptable connection speed to justify the commission’s regulatory agenda,” McAuliffe said. “As long as they claim there is not enough competition in the market, they can intervene by promoting public utility versions of broadband, which will actually distort the market and create a market failure.”

D. Brady Nelson (d.brady.nelson@me.com) writes from Washington, DC.

New York Taxpayers Challenge Public Property Smoking Ban

By Andrea Dillon

A lawsuit filed by a group of New York residents opposed to tobacco bans on government property is being considered by the state’s top court, the New York State Court of Appeals.

NYC Citizens Lobbying Against Smoker Harassment (NYC CLASH), a nonprofit organization founded in 2000 to oppose regulations banning “sin” products such as soda and tobacco, sued the New York State Office of Parks, Recreation, and Historical Preservation (NYS Parks) in 2012, challenging the government agency’s authority to prohibit tobacco use in outdoor public parks.

An Albany County judge sided with NYC CLASH in 2013 and ordered the suspension of the regulation, but the ruling was later reversed on appeal in 2014.

Complex Questions

Aeon Skoble, a professor of philosophy at Bridgewater State University, says the public smoking bans in question have two main areas of vulnerability.

“There are two dimensions: One is the legal matter of whether this should be properly left to the legislature or whether it’s within the purview of the [NYS Parks] officials’ authority,” said Skoble. “The other is the substantive issue of whether the ban is good policy or not.”

Skoble says government-imposed, one-size-fits-all policies are ill-conceived.

“I do think blanket smoking bans in outdoor areas like parks are a bad idea,” Skoble said. “In outdoor areas, smoke dissipates quickly, and the nuisance level to others seems overstated. I’d defer to local park rangers to know where it’s appropriate and where it’s not. But in some 300-square-mile state park, the idea that one person smoking will harm me more than a passing truck is farfetched.”

Hoping to ‘Chill’ Agencies’ Overreach

Audrey Silk, a founder of NYC CLASH, says her organization’s lawsuit is intended to snuff out state agencies’ ability to overstep their authority.

“There will be no effect on legislative enactments smoking bans as a result of this legal challenge,” Silk said. “But it should, and must, put a chilling effect on any idea to ban smoking unilaterally imposed by an agency.”

Silk says New York State bureaucrats have exceeded their constitutional authority.

“The New York State Office of Parks exceeded its authority, and we have had to resort to the court to rectify that,” Silk said. “Case law that mirrors our challenge exactly has come down on our side. We can only hope the Court of Appeals remains consistent on this question.”

Andrea Dillon (thehell1885@gmail.com) writes from Holly Springs, North Carolina.
By Leo Pusateri

An Oklahoma state senator is pushing to reform the state’s civil asset forfeiture laws to help protect citizens’ property rights and civil liberties.

State Sen. Kyle Loveless (R-Oklahoma City) is sponsoring a bill that would reform state laws permitting police and other law enforcement agents to take people’s cash and property without first proving a crime has occurred.

Loveless says his bill, Senate Bill 838, would require the government to return property seized from individuals who have not been charged with a crime.

“My legislation requires law enforcement to return seized property within 30 days if the owner has not been charged with a crime subject to forfeiture.”

KYLE LOVELESS
STATE SENATOR
OKLAHOMA CITY, OKLAHOMA

Loveless says current state laws create an economic incentive for law enforcement to use asset forfeiture against citizens.

“As for the profit motive, current Oklahoma law allows agencies to keep and utilize what they seize,” Loveless said. “No government agency should be able to grow itself out of the normal budgetary process. My reforms will require properly forfeited property—after [a] conviction and clear convincing evidence the property was involved in the crime [is established]—will be deposited into a newly created revolving fund.”

Citizen Oversight

Loveless says citizens and interested parties should have more control over law enforcement agencies’ use of forfeiture laws.

“This fund will be overseen by a citizen oversight board made up of citizens and law enforcement agencies, drug courts, and drug treatment facilities,” Loveless said. “This new process will remove the direct profit incentive while still allowing us to fund all aspects of our current drug crisis.”

Adam Bates, a policy analyst for the Cato Institute’s Project on Criminal Justice, says civil asset forfeiture is more common in Oklahoma than many realize.

“A common occurrence is a traffic stop,” Bates said. “The officer pulls you over, says he smells marijuana or has a K-9 unit ‘hit’ on the car, and uses that as a justification to assert that you’re engaged in drug trafficking, and thus your cash and property is subject to seizure.

“This is a common practice along I-40 in Oklahoma,” Bates said. “Drug possession, suspicion of drug possession, or behavior ‘consistent with drug trafficking,’ which can include things as benign as carrying a lot of cash or having out-of-state license plates, are the most common seizure justifications.

“It’s often very difficult for people to get their stuff back, either because of the procedures in place or because the value of the property is less than the value of the time and legal costs of getting it back,” said Bates.

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

IN OTHER WORDS . . .

“But in a year when [state Sen. Kyle] Loveless, R-Oklahoma City, is up for re-election to the state legislature—a time when most lawmakers would choose not to stir the pot—the state senator has decided to challenge Oklahoma’s civil asset forfeiture laws, which some consider a ‘cash cow’ for police and prosecutors because of their ability to seize cash and property without charging the owner with a crime.

“The way I look at it is, it comes back to should the government be able to take someone’s stuff and keep it without charging them or proving it, and I say ‘no,’” Loveless said. ‘If they’re going to keep calling me names, I’m a big boy, I can take it.’

“This year, at least a dozen state legislatures across the United States are considering legislation to reform civil forfeiture laws.”


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Federal Court Upholds Donor Privacy Rights

By Dustin Siggins

A federal appellate court rejected a lawsuit filed by members of Congress against the federal government’s election watchdog agency, upholding the agency’s rules on privacy rights for campaign donors.

In January, the U.S. Court of Appeals for the District of Columbia reversed a lower court’s ruling that determined the Federal Election Commission (FEC) is incorrectly implementing campaign finance regulations by requiring information on donations made to nonprofit groups organized under Section 501(c)4 or under Section 501(c)6 of the Internal Revenue Code.

The lawsuit, filed in 2011 by U.S. Rep. Chris Van Hollen (D-MD) and other lawmakers, claimed the Bipartisan Campaign Reform Act, the law FEC was using to justify its regulations, required “all contributors who contributed an aggregate amount of $1,000 or more” to be disclosed. The plaintiffs said FEC exceeded its authority by implementing a narrower regulation than intended by lawmakers.

As implemented by FEC, organizations are required to disclose the identity of individuals or organizations if their donations were intended to fund “electioneering communications.”

Price of Free Speech
Paul Sherman, a senior attorney with the Institute for Justice, a nonprofit public-interest law firm, says Van Hollen’s lawsuit was intended to drive up the social and political cost of engaging in political speech.

“Rep. Van Hollen wants organizations that participate in politics to disclose all of their donors, instead of just the donors who contribute for the specific purpose of funding political speech,” Sherman said. “What too many people ignore is that additional disclosure always comes at a cost to speakers, both in terms of privacy and in terms of red tape.”

Sherman says stripping away the privacy of donations can create misleading assumptions about the donors.

“Requiring disclosure of donors who contribute general operating funds to a nonprofit can be highly misleading,” Sherman said. “It creates the impression that they are responsible for political messages they may not know about or even agree with.”

Skeptical of the Law
Sherman says more courts should question the constitutionality of campaign disclosure rules and regulations.

“Courts should treat disclosure no differently than any other regulation that has the potential to chill speech,” Sherman said. “They should be skeptical of the law and require the government to come forward with real evidence that the law produces public benefits and that it is no broader than necessary to achieve those benefits.”

Kyle Maichle, project manager in the Center for Constitutional Reform at The Heartland Institute, which publishes Budget & Tax News, says donor privacy protects citizens’ right to contribute to causes they believe in.

“If you force 501(c)4s to disclose their donors, then it will have a chilling effect on freedom of speech rights, and it can expose the names of donors who have entrusted the organization not to disclose them,” Maichle said.

Dustin Siggins (dustinsiggins@gmail.com) writes from Washington, DC.

Alternative to DOL Fiduciary Rule Proposed in Congress

By Luke Karnick

Lawmakers in Congress are proposing an alternative to a federal agency’s proposed regulation on the investment industry. They say their alternative will balance consumer protection and address compliance cost concerns.

The U.S. Department of Labor’s (DOL) proposed “fiduciary rule” places stricter standards on investment brokers, requiring them to act solely in the client’s interests, instead of the current “suitability standard,” which requires a “reasonable basis to believe that the recommendation is suitable for a particular customer.”

The fiduciary rule was submitted to the White House Office of Management and Budget in January and will take effect 60 days after it is published.

New Standard for Investment Advice
U.S. Rep. Peter Roskam (R-IL) is sponsoring legislation, the Strengthening Access to Valuable Education and Retirement Support (SAVERS) Act, as an alternative to the DOL rule. If approved by lawmakers and signed into law, a “best-interest standard” would be created, requiring investment advisors to recommend investments in which the “person places the interests of the plan or advice recipient above its own.”

Thaya Knight, an associate director of financial regulation studies at the Cato Institute, says the DOL fiduciary rule would have a massive effect on investors with smaller accounts by decreasing their access to professional investment advice.

“Investment advisors tend to take a percentage, usually 1 percent, of the assets under management or work on some sort of flat-fee basis,” Knight said. “However, that only really works when you have a certain amount of assets. Most middle-class workers don’t have a million dollars in savings to make that 1 percent worthwhile.”

Brokers Will Go Broke
Roskam told Budget & Tax News the proposed fiduciary rule would have detrimental long-term consequences for many Americans’ retirement accounts.

“At first blush, the DOL’s rule appears reasonable,” Roskam said. “However, when you look deeper, you realize two things: It is unreasonable, and the long-term effect is to drive the private sector out of the retirement space. I’m not talking tomorrow, but decades from now.”

Roskam says his proposal will protect investors without putting brokers out of business.

“The current standard is just proposing a product that is suitable for a client,” Roskam said. “What the Obama administration says is that it has to be a fiduciary standard, which would really end up limiting the capacity for people to get advice. A best-interest [standard] says you have to put the clients’ interests before yours as a financial advisor.”

Luke Karnick (lkarnick@yahoo.com) writes from Indianapolis, Indiana.
“No one is talking about taking away the monopoly that taxis have on street hails. However, the overall pie of for-hire vehicle trips will increase as consumers have more transportation options.”

JARED MEYER, FELLOW, MANHATTAN INSTITUTE FOR POLICY RESEARCH

Uber Congestion Study Backfires for New York City Mayor De Blasio

By Andy Torbett

A study commissioned in August 2015 by New York City Mayor Bill de Blasio (D) has found increased construction and tourism are mostly responsible for the city’s congested downtown streets.

Uber, a popular transportation network company connecting drivers and riders, has been the target of a campaign by de Blasio and city regulators, who have called for more restrictions on the popular transportation company. De Blasio has claimed Uber is responsible for higher congestion in the city’s downtown areas.

De Blasio backed away from proposed restrictions on Uber in August 2015, instead choosing to commission a government study to identify the causes of congestion and traffic jams in the city’s downtown neighborhoods.

Jared Meyer, a fellow at the Manhattan Institute for Policy Research, says de Blasio intended to use the study’s results to blame Uber for the city’s traffic congestion.

“It was clearly disingenuous to blame a new technology for the age-old problem of busy Manhattan streets,” Meyer said. “The mayor received over $500,000 from the taxi industry for his election. He wants to protect taxi medallion owners’ profits, and he placed this priority over the needs of New Yorkers, which squared poorly with his progressive principles.”

Making a Bigger Pie

Meyer says providing more options for consumers is good for everybody, even traditional taxi drivers.

“No one is talking about taking away the monopoly that taxis have on street hails,” Meyer said. “However, the overall pie of for-hire vehicle trips will increase as consumers have more transportation options. Policymakers are now waking up to the reality that it should make taxis more like Ubers, instead of making Ubers more like taxis.”

Michael Farren, a research fellow at the Mercatus Center, says taxicabs and transportation network companies should both be regulated less.

“The best solution for e-dispatch and traditional taxis to coexist is for them to be subject to the same rules and regulations,” Farren said. “When the playing field is equal, companies must compete to differentiate themselves in ways that matter to the consumer, rather than the regulator.”

Farren says government regulations are getting in the way of businesses serving consumers’ needs.

“In general, producers won’t be able to serve customers in the way that the customers would prefer,” Farren said. “The cost of transportation services would be higher than otherwise possible, meaning that some customers won’t be able to use transportation services and some producers may be priced out of the market. As a result, the remaining producers will enjoy a measure of governmentally granted privilege, which provides protection from competition.”

Andy Torbett (meconservativevoice@gmail.com) writes from Atkinson, Maine.

La. Lawmakers Propose Spending Cuts, Tax Hikes

By Dustin Siggins

Louisiana legislators are working with Gov. John Bel Edwards (D) to fill a looming $850 million gap between state government spending and revenues.

In February, the Louisiana Joint Legislative Committee on the Budget approved $60 million in spending reductions proposed by Edwards. Additionally, lawmakers in the House of Representatives approved a bill that would increase the per-unit excise tax on cigarettes by 22 cents, raising the tax from 86 cents per package to $1.08.

‘Never Easy’

Kevin Kane, president of the Pelican Institute for Public Policy, says the state’s lawmakers have tough choices to make in 2016.

“The budget is in the neighborhood of $25 billion, so the deficits for fiscal years 2015–16 and 2016–17 are sizable,” Kane said. “Cutting spending is never easy, but it is particularly difficult in Louisiana because much of the budget is protected from cuts by statute or by the state constitution.”

Budgetary Auto-Pilot

Kane says the state’s spending laws make it difficult to solve the deficit problem without raising taxes.

“The statutory and constitutional blocks to spending cuts force legislators to cut from higher [education] and health care, while other programs may not face cuts,” Kane said. “The $60 million number may appear modest, but, in fairness to legislators, they have been cutting spending for several years now.”

John Kay, director of the Louisiana chapter of Americans for Prosperity, says the state’s deficit crisis has multiple causes.

“The hole can be attributed to several things, including overspending and a bloated budget; the drop in the price of a barrel of oil; and statutory and constitutional dedications that protect many areas of state spending from cuts,” Kay said. “Just this year, it was reported that the Louisiana state government is losing money on the corporate tax code when exemptions, deductions, and the actual rate paid are considered.”

New Ideas Needed

Kay says solving this problem will require lawmakers to think outside the box.

“They have refused to open up statutory dedications for cuts or reform the tax code in the state, choosing instead to raise taxes on the citizens of Louisiana,” Kay said. “The legislature should examine cuts to contracts and statutory dedications, among other things, to patch the immediate hole, while looking to tax reform and budget reforms to fix future holes.”

Dustin Siggins (dustinsiggins@gmail.com) writes from Washington, DC.
Nebraska Considers Civil Asset Forfeiture Reform

By Matt Hurley

A Nebraska state senator has proposed a pair of bills that would protect citizens’ property from unjustified confiscation and require law enforcement agents to file a report when they take private property believed to have been used in criminal activity.

Currently, Nebraska law enforcement agencies can use a process called civil asset forfeiture to seize private property believed to have been used in the commission of a crime, even if no criminal conviction has occurred.

‘Infringes on Due Process’
State Sen. Tommy Garrett (R-Bellevue) is the sponsor of Legislative Bills 1106 and 1108, both of which are now under consideration by the Senate Judiciary Committee. If passed by the state’s unicameral legislature and signed into law, LB 1106 would reform state laws to require proof a crime has been committed before the government may seize people’s cash or other property.

LB 1108 would require law enforcement agents to categorize and track forfeited assets and report all forfeitures to the state auditor.

Garrett says the government should be held to a higher standard of proof than is currently required under the state’s civil asset forfeiture laws.

“We need to ensure that government doesn’t circumvent the rule of law to plunder.”

Tommy Garrett
State Senator
Bellevue, Nebraska

See related article on page 12.

Expect Bipartisan Support
Doug Kagan, president of Nebraska Taxpayers for Freedom, an independent grassroots taxpayer organization, says the bills would make common-sense reforms to the state’s criminal justice laws.

“These bills do not seem to have caused a liberal-conservative split among senators,” Kagan said. “I would guess that [they] may pass, unless law enforcement agencies lobby hard, as they profit from asset forfeiture.”

Kagan says if the bills pass and are signed into law, the state’s justice system will not be as stacked against taxpayers as it is now.

“The current statute presumes guilt, whereas our justice system presumes innocence until proven guilty,” Kagan said. “If judged guilty, an individual may [be forced to] forfeit property or cash only if strong evidence is provided. Thus, innocent people can retrieve their property in an expedited manner.”

Matt Hurley (wmdtv matt@yahoo.com) writes from Cincinnati, Ohio.

IN OTHER WORDS . . .

“[Nebraska state Sen. Tommy] Garrett’s bill would abolish state civil forfeiture except for abandoned property, instead coupling seizures directly with criminal charges.

“I think forfeiture can be a valuable tool for law enforcement but should be used only when actual crimes are being committed,” Garrett said.

“For example, Nebraska seized almost $43 million through the federal process from 2004-2014, and well over $3 million through the state process since 2011, according to the ACLU. None of the money from the state process accompanied a criminal charge, and the amount of federal money associated with criminal charges is unclear.

“These statistics show me that Nebraska’s civil forfeiture system is hard broke,’ Garrett said.

“Money from assets seized under state law is split between law enforcement agencies and the state’s budget for education. Federal forfeiture returned more money to law enforcement until that well ran dry.”

Chicago Suburb Can’t Explain Its Fiscal Insolvency

By Michael Bates

Independent audits of the finances of Harvey, Illinois, a suburban city about 25 miles south of Chicago, show the city is insolvent, and lawmakers are unable to provide auditors with documentation of how taxpayer money has been spent.

According to auditors from the Civic Federation (CF), a nonpartisan research organization working to maximize the quality and cost-effectiveness of government services in the Chicago area and throughout Illinois, the City of Harvey, which was featured in The Blues Brothers movie, does not have enough assets to meet its financial obligations. CF says spending exceeds revenue by at least 10 percent.

Harvey lawmakers and city officials, including Mayor Eric Kellogg, have racked up at least $59 million in debt, or about $2,500 per resident.

Fiscally Opaque

Bill Bergman, director of research at Truth in Accounting, says Harvey lawmakers have made it difficult for taxpayers to examine their city's finances.

“It is curiously difficult to find Harvey’s Comprehensive Annual Financial Reports, either on the city’s own website or … at the State of Illinois’ comptroller’s website,” Bergman said. “The latest report on the city’s own website is for 2009. That report, in fact, included an independent auditor’s report, as it should, albeit with a qualified opinion: The auditor cited a material deficiency in pension reporting as the reason for not giving the city a clean opinion.”

‘Layers of Local Government’

Andrew Nelms, deputy state director for the Illinois chapter of Americans for Prosperity, says the fragmented nature of local governments in Illinois undermines accountability.

“It’s not simply municipalities,” Nelms said. “We’re also talking park districts, library districts, streetlight districts, mosquito abatement districts, and a whole host of other units of local government that are all levying property taxes on homeowners. An individual homeowner might have to deal with many of these layers of local government. I don’t think the negative effect can be overstated. If you are a homeowner or a business owner, if you’re looking at places to locate, why in the world would you go somewhere that’s so openly hostile?”

Nelms says Illinois taxpayers, like those in Harvey, are being pushed to the limit.

“Illinoisans are paying the second-highest property taxes in the country, have the second-highest outward migration in the country, and these municipalities are looking at every possible revenue avenue, but they’re certainly not looking at any way to reduce the expenses to the homeowner,” Nelms said. “The homeowner whose home is diminished in value and whose household income in inflation-adjusted dollars is certainly not what it used to be, is being asked to forfeit more of their hard-earned money to fund our worst-in-the-nation fiscal government.”

Michael Bates (blog@batesline.com) writes from Tulsa, Oklahoma.

Indiana Lawmakers Call for an Article V Convention

By Luke Karnick

The Indiana General Assembly approved a joint resolution calling for a national convention under Article V of the U.S. Constitution to draft and enact a federal balanced budget amendment, impose term limits on members of Congress, and create reforms that would reduce federal regulations.

Indiana is the sixth state to endorse the proposal. Once 34 state legislatures approve the same resolution, Congress is required to call for a convention, at which point the states take control of the process.

In February, the Indiana House of Representatives and Senate approved the resolution. The legislature was helped by the Citizens for Self-Governance’s (CSG) Convention of States Project. CSG is a nonprofit organization that advocates for the restoration of state and local authority across the United States.

Reining in Washington, DC

Indiana state Sen. Travis Holdman (R-Markle) says the resolution has several goals.

“What we’re calling for is a convention to propose amendments to the [U.S.] Constitution, to impose fiscal restraint on the federal government, limit the power and jurisdiction of the federal government, and impose term limits on federal government officials, which would include judges,” Holdman said.

No Runaway Conventions

Holdman says the fear of a “runaway convention,” in which delegates would offer unrelated amendments to the U.S. Constitution, is unfounded.

“They can actually be charged with a felony back in Indiana if they intentionally act against the will of the legislature, with regards to a convention and the topics that are discussed,” Holdman said. “We have the framework in place, and it is my understanding that we have a number of states who are working on the same language. We have basically provided a model for other states to use in establishing ‘faithful delegate’ rules.”

People Power

Rob Natelson, a senior fellow at the Independence Institute, says the Article V convention process gives the American people the authority to address problems the Founding Fathers may not have anticipated.

“This is a constitutional right that Americans have,” Natelson said. “Reforming their federal government, acting through their state legislators. This is a constitutional right, like the right to vote or the right to free speech. With constitutional rights, either you use it or lose it, so we better use it.”

Luke Karnick (lkarnick@yahoo.com) writes from Indianapolis, Indiana.
A Fresh Look at the Great Depression’s Causes and Effects

By Jay Lehr and Jesse Hathaway

There have been many books written about the Great Depression, the longest and most devastating economic catastrophe in American history, but little consensus exists among scholars regarding what caused the depression, which started in 1929 and lasted until 1939.

Scott Sumner, director of the Mercatus Center at George Mason University’s Program on Monetary Policy and an Independent Institute research fellow, has spent more than two decades researching the Great Depression and its causes. The result of the research is his new book: The Midas Paradox: Financial Markets, Government Policy Shocks, and the Great Depression.

Harmful ‘Help’

Using a simple supply-and-demand model, Sumner states, “The demand shocks to the economy were triggered by gold hoarding or changes in the price of gold, and the supply shocks were caused by policy driven changes in hourly wage rates.”

Sumner shows stock prices, commodity prices, and economic output began to rise only when investors became confident enough to stop hoarding gold.

The corresponding increase in the value of gold and monetary scarcity caused a decline in the world’s economic health—an effect Sumner calls “the Midas Paradox.” As Sumner’s historical research shows, the world’s nations became impoverished because of economic and political scares. Governments and private citizens were spooked into significant gold-hoarding runs. These runs, delineated by Sumner into four key episodes, destabilized international asset and commodity markets. National economies became poorer as governments hoarded increasing amounts of gold.

Getting the Whole Story

One of Sumner’s most interesting conclusions, which he reached only after decades of research on the hundreds of pieces of literature written about the Great Depression, is his explanation of how prior post-mortems have failed to fully examine the root causes, which he says has led to correct-but-incomplete diagnoses of the symptoms presented.

Even esteemed economists such as Milton Friedman, Sumner says, did not fully examine the situation. Friedman and Anna Schwartz’s A Monetary History of the United States, 1867–1960 is among the definitive works that addresses the Great Depression, but even that book did not dig deep enough to determine just why government intervention made things worse.

Sumner’s research methods differ from past examinations of the Great Depression; he includes contemporaneous news reports of the events involved, in addition to historical financial data. Examining history, as recounted by those reporting on it as current events, enabled Sumner to provide context and background to the quantitative search for correlations and relationships.

“In one respect, the event study approach used in this book makes it more difficult to find statistical significance where none exists,” Sumner writes. “A researcher looking for market anomalies can use regression analysis to quickly examine thousands of different relationships over numerous time periods, and just as quickly discard those that don’t produce statistical significance. In contrast, I have only one Great Depression to examine.”

Countdown to the Crisis

Studying the events leading up to the Great Depression, Sumner concludes the past is indeed prologue.

“Instead of existing as a single incident in time, Sumner writes, the Great Depression was a complex, interconnected string of events, consisting of nearly a dozen ups and downs caused by government ineptitude, important actors’ responses to events in the gold market, and other causes.”


“The post-October 1929 rise in the world gold reserve ratio provides an explanation for the onset of the Depression that is broadly consistent with the gold market approach to aggregate demand,” Sumner wrote.

Sumner’s “gold market approach” measures economic demand by comparing the raw quantity of monetary gold and the ratio of gold to fiat money reserves, instead of using banking interest rates and money supplies. This is done to avoid measurement flaws inherent in other studies.

“This increase in the world gold reserve ratio seems to have begun after the stock market crash of October 1929 … which was well after the cyclical peak in output was reached in August 1929. How then could it have triggered the Depression? To answer this question we first need to take a closer look at the events leading up to the 1929 crash,” Sumner wrote.

Instead of existing as a single incident in time, Sumner writes, the Great Depression was a complex, interconnected string of events, consisting of nearly a dozen ups and downs caused by government ineptitude, important actors’ responses to events in the gold market, and other causes.

Useful Knowledge

The Great Depression is surely the biggest puzzle in the history of capitalism. Millions of people were prosperous one year and out of work the next. Whatever you know or think you know about the Great Depression, this book is bound to teach you more, though you will have to be committed to learning from this serious piece of economic research. Nonetheless, the basic message is easy enough for non-specialists to understand: Gold hoarding by governments led to deflation, economic contraction, and a long-term depression.

The lessons Sumner takes from his analysis of the Great Depression could have been used in managing the Great Recession of 2008, but they most certainly were not. Hopefully, such insights will come in handy when the government attempts to respond to the next economic crisis.

Jay Lehr, Ph.D. (jlehr@heartland.org) is science director of The Heartland Institute. Jesse Hathaway (jhathaway@heartland.org) is managing editor of Budget & Tax News.
A ‘No-Nonsense’ Manual for Downtown Revitalization

By Veronica Harrison

Geography plays a role in where businesses take root and grow, and choosing the right location to plant economic seeds is a key factor many business owners and lawmakers ignore, often to their own detriment.

In Successful Smaller Downtowns & Business Districts: What Every Businessperson, Property Owner, and Municipal Official Should Know, author and urban planning expert John L. Gann Jr. displays common policy mistakes made in the private and public sectors. Gann says many businesspeople and government officials plant the seeds of business activity in infertile soil with the expectation economic growth will take off in those unfriendly fields. Unfortunately, this rarely occurs, says Gann.

This manual, which is targeted at business owners and municipal lawmakers, was written to help save those whose fortunes and futures are tied to the well-being of city business districts. Instead of using abstract theories, Gann fills his book with actionable suggestions and tales of real-world experiences.

“The manual is not an academic work,” Gann writes. “You won’t find theory, history, or pages of data. It is not a stuffy scholarly treatise, but a useable no-nonsense action manual.”

Defining Success

The first key to success outlined by Gann is defining what success looks like. Success can mean many things, but the author says downtown business success is defined by how well it attracts people, not how fancy the buildings are.

“The important element for success of any place that seeks to attract people is not the buildings,” Gann writes. “It’s the activities.

“Business districts have been known to flourish in the absence of street trees, attractive signage, and Victorian architecture,” Gann wrote. “Commercial areas have prospered with crumbling sidewalks, traffic congestion and even noisy elevated trains overhead. Business centers can be remarkably adaptable to less than perfect physical or aesthetic conditions. But no business can continue to be vital if it loses the activities that attract people.”

Focusing on Consumers

One common mistake made by urban planners and business owners is forgetting that the success of a business district is tied to the success of businesses in the district. Gann says too many business owners become fixated on improving the look and prestige of their buildings while failing to focus on improving customers’ experiences.

Successful Smaller Downtowns & Business Districts: What Every Businessperson, Property Owner, and Municipal Official Should Know


IN OTHER WORDS . . .

“But some who advise downtowns have preferred to advocate victim status for local stores and deprecate top chains’ success. Some places even prohibit certain kinds of popular chain stores, like ‘formula’ restaurants, in their zoning regulations.

“But outlawing success is no solution for older business areas. A better course for business areas is to study success as a way of improving their own ability to attract and satisfy customers. Two stores, Starbucks and Walmart, offer good models for success. Paradoxically they are both vilified by many planners and activists who advise older business areas. Some seem to see popularity with the public as a black mark.”

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"Coaching When It Counts"

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John Gerdes
KLR Group

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