Senators Discuss
Dodd-Frank
Reforms, Rollbacks

By Karen Beseth

A bill to ease financial and investment regulations passed in 2010 in response to the 2008 banking crisis is under consideration in the U.S. Senate. The Financial Regulatory Improvement Act of 2015 (FRIA), proposed by Senator Richard Shelby (R-AL), was approved in May by the Senate Banking Committee. The measure would ease financial regulations in the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly referred to as “Dodd-Frank,” and require the Federal Reserve and other government financial regulators to operate with greater transparency.

“President Obama signed Dodd-Frank into law five years ago with

President Barack Obama (left) shakes hands with then-House Speaker Nancy Pelosi after signing the Dodd-Frank bill in July 2010.
The Heartland Institute is a 31-year-old national nonprofit organization based in Chicago. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at heartland.org or call 312/777-4000.
Postal Service Considers Entering Banking Industry to Shore Up Budget

By Andrea Dillon

The U.S. Postal Service’s (USPS) watchdog is suggesting it enter the banking industry to “benefit Americans and generate much needed new revenue.” In addition to its primary services of delivering mail, USPS provides financial services such as domestic and international paper money orders, international remittances, open-and-close-loop gift cards, and limited check cashing.

In fiscal year 2014, USPS spent $5.5 billion more than it collected in revenue, and it is currently defaulting on pension payments to retirees.

Doubling Down on Failure

Brian Wise, senior advisor to the U.S. Consumer Coalition, says USPS is doubling down on a failed business model. “This is an agency that should not be assuming any more risk right now,” Wise said. “Banking services are already taken care of by the free market. The last company one would want to invest in is one that is not profitable. The USPS is the last place any customer is going to go.”

Who Watches the Postmen?

Allowing USPS to crowed out private banks is a very bad idea for consumers and taxpayers alike, Wise says. “They can set very low prices to clear out the competition in favor of its own products,” Wise said. “That’s a huge violation of the public trust. When the USPS becomes insolvent, any financial debt incurred will have been guaranteed by the Treasury. This is sort of a giant bailout scheme.”

‘Ducking the Issue’

Rick Geddes, an associate professor of policy analysis and management at Cornell University, says USPS should get serious about making reforms. “Services at the USPS have been in decline for over 14 years,” Geddes said. “Things like this are ducking the issue of what is needed: comprehensive postal reform. They’re losing billions each year, and we’re setting them up to lose more money. The postal service needs fundamental reform.”

Geddes says making the post office into a bank is not a serious idea for making USPS more profitable. “They’re saying that with these offerings they will compete with private industry, but they’ll cross-subsidize their services by using revenue from the new ventures,” Geddes said. “By using some of their monopoly services, they could unfairly subsidize areas where they face competition.”

Andrea Dillon (tbeh111885@gmail.com) writes from Holly Springs, North Carolina.

Delaware Lawmakers Plan to Kill State’s ‘Death Tax’

By Tony Corvo

As revenue from taxing families’ inheritances continues to dwindle, Delaware lawmakers are proposing a repeal of the state’s estate tax, also called the “death tax.”

Caesar Rodney Institute President John Stapleford says Delaware’s estate tax has been in effect for only a few years, but its effects are already noticeable.

Delaware allowed its estate tax to expire in 2001 after President George W. Bush signed the Economic Growth and Tax Relief Reconciliation Act of 2001 into law, removing federal tax credits for state estate tax payments.

“As the country came out of the recent recession, Delaware reinstalled the estate tax in 2011 on larger estates,” said Stapleford.

Voting ‘With Their Feet’

Stapleford says Delaware’s estate tax revenues have dropped significantly over the past few years. “Since many wealthy Delaware families have homes in other states that have no income or estate taxes, the result was the natural human response that if you tax something you’ll get less of it,” Stapleford said. “So people voted with their feet. ... The outcome has been a drop in estate tax revenue from $16 million in 2011 to $12 million, to $5 million, and finally to $1.3 million in 2014.”

Stapleford says the death tax discourages investment and entrepreneur- ship. “The latest data from the Forbes list of the richest 400 families show that 70 percent are self-made—in other words, not inherited money,” Stapleford said. “Most of the remaining families are like the Waltons of Walmart; that is, the wealth came from starting a business. If you start penalizing the creation of wealth, you are going to get less wealth and an overall penalized economy.”

Temporary, Then Permanent

State Sen. Gary Simpson (R-Milford), the sponsor of the bill, says the four-year-old tax was intended to be a temporary measure. “When the current Delaware estate tax was first reintroduced, it was sold as a temporary tax to balance the state budget,” he said. “It had a four-year sunset clause, but that clause was not activated.”

“It was also projected to bring in $25 million annually in revenue. That revenue never materialized,” Simpson said.

Moving Out of Delaware

Simpson says the effects of the death tax outweigh its benefits. “A tax attorney was quoted in one of Delaware’s daily papers [saying] that he lost five clients last year, each paying about $50,000 annually in personal income taxes,” Simpson said. “That’s just one tax attorney, but it represents five lifetime income tax revenue losses. It just seemed to me a losing affair for Delaware to continue with the estate tax at the expense of 20 or 30 years of income tax receipts.”

GARY SIMPSON, STATE SENATOR
MILFORD, DELAWARE

“It just seemed to me a losing affair for Delaware to continue with the estate tax at the expense of 20 or 30 years of income tax receipts.”

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Online Poker Ban Gains Senate Support

By Matt Hurley

Despite his past support of bills to legalize online gaming, U.S. Senate Minority Leader Harry Reid (D-NV) now backs the Restoring America’s Wire Act (RAWA), a bill that aims to revise federal anti-wagering laws to include bans on online poker.

If passed, RAWA would change the U.S. Department of Justice’s official interpretation of anti-wagering laws. In 2011, U.S. Assistant Attorney General Virginia Seitz responded to two states’ request for an interpretation of the Wire Act of 1961 by writing, “Interstate transmissions of wire communications that do not relate to a ‘sporting event or contest’ fall outside the reach of the Wire Act.”

‘Bootleggers and Baptists’

Chapman University law professor Thomas Bell argued RAWA is a front for established businesses seeking to snuff out competitors.

“Bans on Internet gambling offer a great example of the ‘bootleggers and Baptists’ dynamic,” Bell said. “Brick-and-mortar gambling businesses don’t want more competition, and prudes don’t want more fun. They join efforts to fight Internet gambling, the monopolists typically funding the moralists to serve as the movement’s facade.”

Sharper Definitions

Instead of expanding the Wire Act’s reach to include more forms of entertainment, Bell says the federal government should make the law more focused.

“In most jurisdictions, games qualify as gambling only when luck predominates over skill in determining who wins,” Bell said. “Lotteries offer the best example. In poker, skill has a large impact on outcomes. Because poker does not fit the usual definition of gambling, lawmakers have good reason to exclude it—as well as sports betting, blackjack, and other games—from any online gambling ban.”

Hidden Agenda

Competitive Enterprise Institute Fellow Michelle Minton says RAWA’s true goal is to benefit the “bootleggers” running physical casinos.

“Sheldon Adelson, CEO of the Las Vegas Sands Corporation, declared in 2011 that he’d spend whatever it takes to stop the spread of online gambling,” Minton said. “He claimed his motivation was entirely about protecting vulnerable populations such as children and those with a gambling addiction, yet his own casinos proudly advertise mobile gambling that allows players to gamble on their phones from anywhere in Nevada.”

Harm Principle

Minton says the federal government should leave people alone and let them have fun doing activities that don’t harm others.

“My perspective is that the federal government does not have the right to tell Americans when and how they should spend their money online, so long as they aren’t harming another person,” Minton said.

“If a person values playing slots online more than the money, he or she will lose while doing so, and neither I nor anyone else should be able to prohibit them from engaging in that activity.”

“Bans on Internet gambling offer a great example of the ‘bootleggers and Baptists’ dynamic.”

THOMAS BELL

CHAPMAN UNIVERSITY

INTERNET INFO


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

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The Patriot’s Toolbox

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

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Senate Considers Dodd-Frank Reforms, Rollbacks

Continued from page 1

much fanfare and celebration,” noted a July 6 press release from the House Committee on Financial Services. “We were told Dodd-Frank would ‘lift the economy,’ ‘end too big to fail,’ and ‘increase financial stability.’ Instead, five years later the big banks are bigger, the small banks are fewer, and the economy remains moribund.

“Low- and moderate-income Americans have lost free checking, seen small business lines of credit evaporate, and it’s now harder for them to achieve financial independence,” the committee’s press release continued. “Never before has more unchecked discretionary authority been given to unaccountable government bureaucrats. Regrettably, the result is less freedom, fewer and more expensive choices, and reduced upward mobility for low- and moderate-income Americans.”

‘More of the Same’
Heritage Foundation Research Fellow Norbert Michel says Dodd-Frank is an example of tired government-centric policies.

“All regulations end up costing consumers something,” Michel said. “The only question is to what extent. Dodd-Frank has burdened more firms with larger compliance costs, and there’s no doubt some of that will be passed on to consumers.”

Michel says allowing the market to pick winners and losers would be more effective at achieving Dodd-Frank’s stated goals than authorizing government to decide which companies succeed.

“The better approach would be to allow these firms to face market discipline and operate without so much top-down regulation,” Michel said.

Consumer Services Diminished
J.W. Verret, a senior economics scholar at the Mercatus Center at George Mason University, says Dodd-Frank has hurt consumers.

“Dodd-Frank has resulted in a significant decrease in free checking accounts for consumers, [and it] has increased the cost of borrowing for nearly a third of creditworthy African-American and Hispanic consumers, according to a report from the Federal Reserve,” said Verret.

Verret says Dodd-Frank has also stifled innovation.

“Dodd-Frank has hindered the financing pipeline for biotech companies working to develop life-saving drugs,” said Verret. “They have seen their hopes to go public dashed by bureaucratic compliance costs. What exactly are consumers now protected from?”

“Too many people seem to have forgotten that all those Fannie and Freddie mortgage-backed securities were actually backed up by the government,” Verret said. “There’s no doubt that’s one reason so many people wanted to buy them and invest in them. This situation hasn’t changed at all except that an even higher percentage of mortgages are backed by the government.”

Creating Moral Hazard
Verret says the financial industry needs less government babysitting, not more.

“The federal safety net for the financial sector needs to be dramatically curtailed,” Verret said. “The Richmond Federal Reserve estimates $26 trillion, or 60 percent of debt issued by the financial sector, is backed up by the federal government.”

“The guaranty completely distorts capital markets and eviscerates the discipline that creditors would otherwise exert on financial firms that take unnecessary risk,” Verret said.

Karen Beseth (lonelyconservative@yahoo.com) writes from Jamesville, New York.

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INTERNET INFO

By Warner Todd Huston

O verruling public pension reforms enacted in 2013, the Illinois Supreme Court ruled the state’s constitution fords lawmakers from reducing and suspending automatic pension increases and other benefit-boosters promised to public-sector workers.

There are at least 656 municipal and state pension programs in Illinois.

State Budget Solutions, a nonpartisan public policy organization focusing on local and state budget issues, estimates Illinois’ state pension programs’ unfunded liabilities exceed $330 billion, or about $25,740 per resident.

“The state’s debt problem may be worse than most realize,” wrote Matthew Glans, senior policy analyst for The Heartland Institute, which publishes Budget & Tax News.

In a Research & Commentary published June 9, Glans continued, “If public-sector union bosses do not accept sensible changes, more state workers will lose their jobs, taxes will increase, businesses will leave, and essential public services will be crowded out.”

Ted Dabrowski, vice president of the Illinois Policy Institute, says there are limited options for saving the state’s public pension programs.

“There are two things,” Dabrowski said. “One, something that can be done that isn’t in conflict with the constitution, is to move all new workers to 401(k) plans. This is already happening across the country, with Oklahoma the most recent state to do that.”

Benefitting Future Employees

Dabrowski says Illinois and local governments must negotiate with taxpayers’ and future employees’ interests in mind.

“But another thing is the need for tough negotiations,” Dabrowski said. “Clearly, it’s in the best interest of state employee unions, and certainly the workers’ best interest, to negotiate some change. If they’re not careful and municipal bankruptcy does become an alternative in some form, then cuts are going to be forced on workers by federal bankruptcy courts.”

“Clearly, it would be better for the workers to control their benefits than to rely on the politicians who are running the pensions into the ground in the first place,” Dabrowski said.

‘What Not to Do’

Jonathan Williams, director of tax and fiscal policy at the American Legislative Exchange Council, says Illinois’ pension problems are a cautionary tale for other states.

“As we travel around the 50 states talking about different fiscal reforms, we always have to highlight Illinois, unfortunately, as an example of what not to do.”

Too Late for Reform?

Williams says Illinois’ pension problems will continue to worsen.

“It’s inevitable,” Williams said. “There may not be enough taxes that could be raised to pay for the unfunded liabilities at this point. ... Not suggesting that you should either, but you’re already looking at skyrocketing tax rates across the board, and then of course the state becomes even less competitive with neighboring states, such as Wisconsin and Indiana, to which Illinois is losing individuals and business already.”

In 2014, 94,956 Illinois residents moved to other states. Chief Executive magazine’s annual survey of business owners’ opinions towards states’ business climates ranked Illinois as one of the worst states in the nation, ahead of only California and New York.

Williams says money for government services will be diverted to servicing pension debt.

“With looming cuts, many of these core services that Illinois residents have come to enjoy over the years are certainly on the chopping block, unless pension reform is enacted,” said Williams.

Warner Todd Huston (ticolone1@hotmail.com) writes from Streamwood, Illinois.

Alabama Lawmaker Introduces Flat Tax Proposal

Continued from page 1

its, little exemptions, little deductions, and it doesn’t amount to much, but if you add them all together, it’s over $2 billion of our budget,” Hightower said.

By eliminating tax carve-outs, Hightower says the income tax rate can be cut nearly in half.

“When I was elected to the state legislature two years ago, I began to investigate what would happen if we elimi-

nated the over 100 exemptions, credits, and deductions,” Hightower said. “How low could we get the taxes? I eventually learned that we could get it down to 2.75 percent. In other words, almost half our existing rate.”

‘They Think It Makes Sense’

Hightower says reducing the complexity of the Alabama tax code is popular among his constituents.

“The support has been overwhelming,” Hightower said. “The public has been very excited about the possibility. They think it makes sense. They wondered why Alabama’s code is so complex.”

Hightower says he’s looking forward to ripping up the state’s voluminous tax code. “Imagine eliminating all the credits, exemptions, and deductions, how many pages of the tax code we’ll be able to rip out—it’s incredible!” he said.

Getting Rid of Rent-Seekers

Tax Foundation economist Kyle Pomerleau says Hightower’s proposal needs some refinement but is a step in the right direction.

“The proposed Alabama flat tax does not look as though it has an exemption for capital gains and dividends,” Pomerleau said. “Alternatively, instead of exempting capital gains and dividends, Alabama should allow people to deduct the amount of money that they save.

“I would say that there certainly are positives to this proposal,” Pomerleau said. “It does move in the direction of getting rid of the rent-seeking behaviors of either businesses or individuals, because it gets rid of a lot of deductions and credits, but there are some shortcomings of the plan. It doesn’t exactly mirror what a flat tax should be, but I do think it’s a step in the right direction.”

‘Very Straightforward’

Pomerleau says Hightower’s bill is a positive development, despite its flaws.

“This is how we should be talking about tax reform at both the state and federal levels, going toward simplification and defining income in a very straightforward way, and I think this proposal does that,” Pomerleau said.

Elizabeth BeShears (etb@yellowhammernews.com) writes from Birmingham, Alabama.
Former Indiana Governor Recognized for Work on Private-Public Partnerships

By Amelia Hamilton

The Reason Foundation has recognized former Indiana governor Mitch Daniels’ (R) efforts to save taxpayers money and increase the efficiency of public services, presenting Daniels with the first annual Savas Award for Public-Private Partnerships.

The award recognizes individuals and organizations who improve the cost-effectiveness of public services by partnering with private organizations.

‘A Great Deal’
The award’s namesake, E.S. Savas, a professor at Baruch College and former assistant secretary of the U.S. Department of Housing and Urban Development, says Daniels’ implementation of private-public partnerships (P3s) greatly benefited consumers and taxpayers.

“When he was governor of Indiana, one major thing that he did which got a great deal of national and even international attention was leasing the Indiana Toll Road,” Savas said. “He leased that; in other words, he created a concession or a franchise, and a private organization paid the state $3.8 billion upfront and the nearly half a billion dollars of improvements that were made by the original concessionaire.”

Demonstrating Leadership on P3s
Leonard Gilroy, director of government reform for the Reason Foundation, says Daniels’ leadership on P3s deserves recognition.

“It really comes down to his demonstrated leadership on public-private partnerships, as a practitioner,” Gilroy said. “To be successful at this sort of thing, you need competence and leadership, and he really demonstrated those qualities while pursuing those various initiatives.”

Gilroy says P3s are an example of creative problem-solving in government.

“Governments are facing fiscal pressure, so they need to find creative ways to do more with less,” Gilroy said. “Public-private partnerships are a creative way of doing that, whether you are talking about something that is a more traditional contracting-out, outsourcing or that kind of initiative or you dial that up to something where you’re hiring a private company to finance and build new highways, water systems, bridges, and other types of major infrastructure.”

Taxpayers Came Out Ahead
Savas says taxpayers ended up winning, even though the private company filed for bankruptcy in 2014.

“Now, the curious footnote to that, as a matter of fact, is that that company went bankrupt last year, after eight years,” Savas said. “However, bankruptcy cost the people of Indiana absolutely nothing.

“The bankrupt company rebid the thing and was able to rebid the remaining 66 years of the lease, and another company bought that with a much better financing arrangement so that they’re not in any great danger,” Savas said. “Again, the people of Indiana lost nothing, and they still had their $3.8 billion upfront and the nearly half a billion dollars of improvements that were made by the original concessionaire.”

‘That’s why people like Gov. Daniels are so important, because they really set a precedent for others to follow,” said Gilroy. “We’re going to need more and more and more of these, not less.”

Amelia Hamilton (mail@ameliahamilton.com) writes from Traverse City, Michigan.

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Santa Monica Slams Airbnb with Regulations, Taxes

By Ashley Herzog

The Santa Monica City Council is banning residents from sharing their homes using the popular sharing-economy website Airbnb, unless the host has received official licensing and permission from city regulators and pays hotel taxes. Airbnb hosts will be required to remit the city’s 14 percent hotel tax.

The city council announced it plans to hire a team of full-time investigators to enforce the regulations, monitor Airbnb listings, and investigate potential illegal sharing-economy activity in Santa Monica.

Bootleggers and Baptists

Art Carden, a research fellow for the Independent Institute and a Samford University associate professor of economics, says Santa Monica’s new regulations don’t help consumers.

“This smells like a ‘bootleggers and Baptists’ story,” Carden said. “There are three ways people are thinking about this: two public-spirited and wrong and the other devious and wrong. The public-spirited supporters of the ban want to protect consumers from unscrupulous people on Airbnb. Airbnb solves this problem with transparency and verification.

“Other public-spirited supporters of the ban might want to protect the jobs of hotel workers and the like who would be threatened by Airbnb, but as Frederic Bastiat pointed out in a classic essay, the same logic suggests that we would be better off if we blocked off the Sun to protect candle-makers,” Carden said.

Protecting Hotels from Competition

“The devious interpretation is that hoteliers and others are working to block Airbnb and protect themselves from competition through political channels,” Carden said. “In all three cases, people who want to rent out their places on Airbnb are hurt, and there are unconsummated transactions that would have created wealth but aren’t allowed because of the ban.”

Heritage Foundation Senior Research Fellow James Gattuso says the Santa Monica City Council is presuming to know homeowners’ best interests better than the individuals themselves.

“Many have expressed an interest in sharing their homes with visitors for a fee under Airbnb’s platform,” said Gattuso. “The city government said no, apparently believing they know what’s best for them.”

By preventing residents from using their private property as they wish, the Santa Monica City Council is making the city a less attractive place to live and visit, Gattuso says.

“It will certainly limit Santa Monica tourism, but the city government seems happy to limit tourist visits,” Gattuso said.

Ashley Herzog (aehristow85@gmail.com) writes from Avon Lake, Ohio.

Welfare Rolls Fall to Their Lowest Level Since 2011

By Michael Bates

The number of people receiving Supplemental Nutritional Assistance Program (SNAP) benefits fell to its lowest level since August 2011, according to monthly numbers released by the U.S. Department of Agriculture.

In March 2015, the most recent month for which enrollment numbers have been published, 45,641,762 individuals received SNAP benefits. Monthly food stamp enrollment declined each month since June 2014, the last month enrollment numbers increased. Since then, 813,319 individuals and 204,463 families have exited the program.

Many Still Trapped on SNAP

Heritage Foundation Policy Analyst Rachel Sheffield says entitlement programs such as SNAP use the wrong standards for measuring success, making it difficult for people to return to self-sufficiency.

“The success of the program is measured by how many people receive benefits,” Sheffield said. “By that measure, the program has been quite successful. This is a faulty goal, however. The goal of welfare should be to promote self-sufficiency by addressing the causes, not just the consequences, of poverty.”

Sheffield says the government should refer to past reforms as a guide for helping people return to self-sufficiency.

“The food stamp programs should be reformed to include a work requirement for able-bodied adults, requiring them to work, prepare for work, or look for work in exchange for receiving benefits.”

Work requirements are proven to help people take charge of their lives, says Sheffield.

“After the work requirements were implemented, welfare rolls dropped by half, employment among low-income individuals increased, and child poverty declined,” Sheffield said. “A work requirement serves as a gatekeeper to ensure that means-tested welfare assistance goes to those truly in need and encourages individuals towards work.”

Cost of Poverty War

Ross Kaminsky, a senior fellow for The Heartland Institute, which publishes Budget & Tax News, says decades of entitlement spending have provided very few tangible positive results.

“Generally speaking, the war on poverty has been a failure, or at least not a success, and it’s come at the cost of trillions of dollars,” Kaminsky said. “If an employee of yours did something over and over for years without producing a good result, wouldn’t you tell them, ‘Hey, this clearly does not work; try something else?’

“It’s only in government where repeated failure is rewarded with more money,” said Kaminsky. “That has to stop.”

Getting Government Out of the Way

Kaminsky says making it easier for businesses to hire entry-level workers would help more people than massive government programs do.

“Eliminating minimum wage regulations could help low-skill workers get entry-level jobs at which they can learn skills that would lead to better-paid work,” Kaminsky said. “The current push to substantially increase minimum wages will be a disaster for the poorest of the poor, at least those who want to feel the self-respect that comes with having a job.”

Kaminsky says getting the government out of the “business” of helping people would allow charities to help people more effectively.

“Finally, and I realize this is a libertarian utopian thought and something that will never come to pass, we should end the welfare state for all but those who truly can’t take care of themselves and instead have private charities take over that work, as they used to before government crowded them out,” Kaminsky said. “Private charities would be far more effective than bureaucrats in helping the poor.”

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

INTERNET INFO


Peter Ferrara, Power to the People: The New Road to Freedom and Prosperity for the Poor, Seniors, and Those Most in Need of the World’s Best Health Care, The Heartland Institute, 2015: store.heartland.org
**Supreme Court: Md. Can’t Tax Out-of-State Income**

**By Elizabeth BeShears**

The U.S. Supreme Court has ruled unconstitutional a case of double taxation in Maryland’s income tax system.

Maryland state and local governments had treated income earned elsewhere as if it were earned in-state, charging Maryland-based income taxes in addition to the taxes the individuals paid to the states where their income was earned.

The decision in Comptroller of the Treasury of Maryland v. Wynne upheld a 2013 Maryland Court of Appeals ruling, which concluded the state was illegally “double taxing” residents’ income.

**Taxpayers Win**

Maryland Taxpayers Association President Dee Hodges says the ruling will have a big effect on the state’s taxpayers.

“It’s estimated 55,000 Maryland residents will benefit from this decision,” Hodges said.

“A lot of Maryland residents didn’t even realize they were paying a ‘piggyback tax’ to the counties when they filed their taxes,” Hodges said. “It averaged around 3 percent, and in Howard County, where the Wynnes live, it was 3.25 percent.”

Hodges says local government budgets in Maryland will be thrown into chaos due to their reliance on the illegal tax structure for revenue.

“Maryland counties now owe approximately $200 million back to residents for refunds since 2006, and it’s estimated that it will cause a $42 million annual shortfall,” Hodges said.

**Will Affect Other States**

Cato Institute Senior Fellow Walter Olson, a Maryland resident, says the decision will directly affect future tax cases.

“The Court confirmed that it will look at issues of double taxation,” Olson said. “Those will sometimes come up in other contexts.”

Olson says taxing economic activity across state lines quickly becomes complicated. “The whole issue of state taxation of interstate activity is a big, complicated one, which is always made interesting by the fact that the states would love to grab more than their share of revenue,” Olson said.

**Constitutionally Interesting**

“I think the Supreme Court saw this as a case where it could do away with a pretty obvious injustice, but the way in which it did so, with the so-called ‘Dormant Commerce Clause,’ interests many of the constitutional law scholars about this case,” he said.

Olson said the Supreme Court may have made the right call for the wrong reasons.

“There is no explicit wording in the Constitution saying that when states get too frisky about regulating or taxing the economic activity in other states, they are interfering with the national market and implicitly with the federal government’s power to keep an open interstate market.”

Olson says the Supreme Court sometimes defers to legal precedents over what is written in the Constitution.

“The Supreme Court has generally agreed, for many, many years, that it will strike down some state laws that interfere with economic activity in other states,” Olson said. “But you have these odd alignments on the Supreme Court in which many of the justices are swayed by precedent and say that ‘the Court has been enforcing these ideas for a long time; we’re not going to go back and check with the Framers and overturn something that’s been accepted by the Court for a long time.’”

Elizabeth BeShears (etb@yellowhammernews.com) writes from Birmingham, Alabama.

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Department of Education Presses for New Authority Over Banks

By Jeff Reynolds

The U.S. Department of Education is proposing a new rule granting itself new power over how banks can work with colleges to assist with loan disbursements to students.

Under the proposed rule, banks would be prohibited from assisting colleges with financial aid disbursements into student accounts if the financial institution charges overdraft penalties or other common fees. Some schools currently outsource the disbursement process to banks, speeding up the procedure and providing students with accelerated access to financial aid funds.

‘Nanny State Gone Wild’

John Berlau, senior fellow at the Competitive Enterprise Institute, says the proposed rule is unnecessary and lacks legal authority.

“I don’t see any statutory authority for the Department of Education for [regulating] banking,” Berlau said. “Basically, they think that banks are exploiting students. They’re saying that students can’t be expected to balance their budgets, and therefore you can’t charge overdraft fees. In the process, they’re denying students the opportunity to learn about saving.”

Berlau says the proposed rule is evidence “the nanny state has gone wild.” The intent is basically to protect people from themselves, Berlau said. “As much as they say it’s the evil banks, they’re really saying that students and other people can’t be trusted with these accounts and to balance their checkbooks, so they must be protected.”

‘Subsidize the Irresponsible’

Berlau says overdraft fees teach responsibility to younger people. “The assumption is that banks are exploiting you if you don’t balance your checkbook or if you have a bounced check,” Berlau said. “It used to be that you went to jail for a bounced check. Now they have this convenient feature where you just pay a penalty. Sometimes it is a little steep, but it’s in proportion. It teaches most people not to overdraft again.”

Berlau says the proposed rule will transfer money from financially responsible people to the irresponsible. “This is forcing the responsible students and others to subsidize the irresponsible,” Berlau said. “It’s going to raise the fees for everybody [else] if we can’t charge extra fees to those who don’t do the minimal effort to balance their checkbook. Those who are irresponsible with their bank account need to pay their fair share.”

John A. Tatom, a fellow at the Johns Hopkins University Institute for Applied Economics, Global Health, and the Study of Business Enterprise, says the proposed rule illustrates the Obama administration’s disdain for free-market capitalism.

More Regulations

“The Department of Education does not regulate banks, but it increasingly regulates state, local, and private educational institutions to the detriment of students that it claims to protect,” Tatom said. “These proposed new rules reflect the [Obama] administration’s attitude that profits are bad, and it uses the power of its funds to force compliance with its wishes, even if it reduces opportunities for the students it claims to protect.”

Tatom says the proposed rule ignores the principle of voluntary exchange, where people engage in mutually beneficial arrangements. “That banks might profit from these arrangements is the problem from the [Department of Education’s] perspective,” Tatom said.

“DOE aims to limit students’ opportunities to receive their loan funds in a more efficient and desirable manner that benefits them, as well as the banks that would serve them and their universities that help arrange, distribute, and service their loans,” Tatom said.

‘An Unworkable Environment’

Andrea Castillo, technology policy program manager for the Mercatus Center, says Wyoming’s banking policies are holding back innovative digital businesses like Coinbase.

“The State of Wyoming’s decision to require bitcoin wallet service providers to hold 100 percent fiat currency reserves against all bitcoin deposits is clearly impractical and unnecessary,” Castillo said. “It would seem that this is a deliberate attempt to suppress the use of bitcoins in Wyoming, or it might be the work of a lazy or ignorant bureaucracy.”

Wyoming BankingRegs Squeeze Bitcoin Exchange Company

By D. Brady Nelson

Coinbase, a bitcoin wallet and exchange service company with operations serving more than 2.5 million users in 190 countries, has announced the suspension of all operations in Wyoming as a result of state financial regulators’ interpretation of the Wyoming Money Transmitter Act.

As state regulators currently interpret the law, exchanging Wyomingites’ fiat currency for bitcoins or depositing bitcoins in Coinbase “wallets” requires state financial licensure and the maintenance of a dedicated fiat currency reserve at least equal to the dollar value of all bitcoins held for all customers.

“The requirement that virtual currency businesses must keep a 100 percent fiat reserve of customer assets is indeed onerous.”

Andrea Castillo
Technology Policy Program Manager
Mercatus Center

Regulations Squashing Innovation

Mark Thornton, a senior fellow at the Ludwig von Mises Institute, a nonprofit think tank dedicated to research and education about classical liberalism, says Wyoming’s banking regulations are squashing innovation in financial services.

“The State of Wyoming’s decision to require bitcoin wallet service providers to hold 100 percent fiat currency reserves against all bitcoin deposits is clearly impractical and unnecessary,” Thornton said. “It would seem that this is a deliberate attempt to suppress the use of bitcoins in Wyoming, or it might be the work of a lazy or ignorant bureaucracy.”

D. Brady Nelson (d.brady.nelson@me.com) writes from Washington, DC.
Growing N.J. Pension Gap Threatens Its Taxpayers

By Matt Hurley

New Jersey's pension liabilities are increasing, with official actuary reports compiled for the state's pension board showing the public retirement fund debt grew by 13 percent between June 2013 and July 2014.

Each New Jersey taxpayer is now liable for more than $12,500 in debt since the state's funds can pay only 51 cents toward each dollar promised to public-sector retirees.

As bad as the state's pension problem appears, Mercatus Institute Senior Research Fellow Eileen Norcross argues New Jersey's problem is even worse than reported.

"New Jersey's unfunded pension liability is much larger than the state estimates," Norcross said. "On a market basis, it is closer to $135 billion. This discrepancy is due to a mistaken assumption that the U.S. government uses when calculating the present value of pension liabilities due in the future."

Inaccurate Discount Rates

Norcross says public-sector plans fudge numbers to make funds appear to be better situated than they actually are.

"To figure out what a pension benefit due in the future is worth in today's dollars ... you need to assume a rate of interest to 'back out' or reverse compound interest," Norcross said. "Public-sector plans in the United States choose that interest rate based on what they expect the pension plan's assets will return when invested in a portfolio of risky assets. That expected rate of return on the assets is, on average, between 7.5 percent and 8 percent."

"When valuing public pensions using a lower discount rate, based on the bond yield in the 3 percent range, the present value of these liabilities gets large and the annual contribution needed to fund the system increases," Norcross said.

As a result, pension plans can become underfunded even without excess liabilities, Norcross says.

"Even where plans make 100 percent of their annual contribution, that amount is insufficient to fully fund the system," Norcross said. "The funding of a riskless liability is matched to a risky and uncertain portfolio of assets, producing funding gaps in the right circumstances."

Funding Gap Dwarfs Revenues

Rachel Greszler, senior policy analyst for economics and entitlements at The Heritage Foundation, says although economists may disagree on the exact size of New Jersey's pension problem, it's definitely huge.

"Under the [Governmental Accounting Standards Board] standards, New Jersey's pension debt is $87 billion," Greszler said. "And according to some financial economists, it's over $100 billion. New Jersey's gross state product is about $850 billion, so unfunded pension debt is approaching 20 percent of the state's gross state product, according to some financial economists."

Greszler says the state's pension funding gap dwarfs its annual tax revenue.

"New Jersey's estimated tax revenues for 2014 are $31.2 billion, so the state's unfunded liabilities are close to three times its annual tax revenues," Greszler said. "If New Jersey fully funded both its pensions and retiree health care, it would consume almost 25 percent of the state budget."

Greater Employee Contributions Needed

Greszler says New Jersey can solve its looming problem with a few simple changes.

"To the extent possible, as allowed by the state court's interpretation of New Jersey's contractual pension obligations, [the state should] increase contribution rates for current employees," Greszler said. "This is not only necessary to fund their own pensions, but increased contributions will be needed to offset the reduction in contributions from ending pensions for new hires."

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

Senators Question Agencies’ Backdoor Rulemaking

By D. Brady Nelson

U.S. Senators Lamar Alexander (R-TN) and James Lankford (R-OK) are challenging federal agencies to explain their use of industry guidelines to force businesses into compliance with the agencies' wishes without legal authorization.

Federal regulations, carrying the force of law, must be open to public inspection and comment. Guidelines are not processed through the same comment process as regulations, so government agencies can use them to bypass congressional oversight and scrutiny, Alexander and Lankford write in their letter.

Watching the Regulators

James Broughel, regulatory studies program manager for the Mercatus Center, says lawmakers should begin paying attention to how government agencies are sneaking regulations through the backdoor.

"It is good news that legislators are beginning to scrutinize the degree to which federal agencies are evading procedural requirements in the rulemaking process."

"The new effort by senators to investigate and scrutinize federal agencies' skating of the law is beyond overdue," Crews said. "Agencies issue far more rules and laws than Congress does. Agencies issue regulations without providing the public adequate notice and providing an opportunity to comment."

Avoiding Oversight

Crews says executive branch agencies' usurpation of Congress's authority through the use of guidelines is just the tip of the regulatory iceberg.

"Agencies avoid public and congressional scrutiny by issuing memos, letters, guidance documents, bulletins, and other proclamations and decrees that influence the behavior of the public outside normal [Administrative Procedure Act] processes, let alone constitutional lawmaking processes," Crews said.

D. Brady Nelson (d.brady.nelson@me.com) writes from Washington, DC.
Ohio Aims to Reform Project-Labor Agreements

By Ashley Herzog

Reforms changing how local governments negotiate with project contractors are included in the Ohio House of Representatives’ version of the biennial state budget and are intended to rein in the cost of taxpayer-funded construction.

The budget bill, House Bill 64, includes a prohibition on using state taxpayers’ money on government construction projects containing project labor agreements (PLAs).

Opportunity Ohio President Matt Mayer says HB 64 will eliminate many problems caused by PLAs, which often contain provisions requiring the payment of “prevailing wages.”

“Prevailing wages are the wages paid in a jurisdiction for government-funded projects,” Mayer said. “Typically, prevailing wages translate to union-required wages and are about 20 percent more than nonunion wages for similar work. A PLA is an agreement in force on a government-funded project that sets the terms and conditions of employment on that project, which are union-driven components.”

Driving Costs Up

“PLAs, like prevailing wages, drive the cost of a project well above what the project would cost without the PLA,” Mayer said.

“As evidenced by the Huntington Park project in Columbus, which went over budget and took longer to complete due to faulty workmanship, neither prevailing wages nor PLAs solve the alleged problems of unskilled labor, cost containment, or predictability,” Mayer said. “The only thing those concepts guarantee is that unions can compete, because nonunion companies have to pay wages higher than they normally would.”

Mayer says reforms are needed for taxpayers’ money to be used efficiently.

“Cities should fight for the right to be free of both prevailing wages and PLAs so they can let the competitive process get them the most work for the least amount of funding,” Mayer said. “Taxpayers’ resources shouldn’t be used to prop up unions. Those funds should be spent efficiently and effectively to get the best value for taxpayers.”

‘PLAs Are Anti-Competitive’

Cara Sullivan, director of the American Legislative Exchange Council’s Task Force on Commerce, Insurance, and Economic Development and Justice Performance Project, says the problems caused by prevailing wages and PLAs go hand-in-hand.

“In reality, prevailing wages can set wage levels artificially high, or, as one study found, artificially low,” Sullivan said. “Additionally, because wage floors price out less-experienced and -educated individuals, prevailing wages can be most harmful to new or would-be entrants into the marketplace. PLAs are anti-competitive and can drive up the cost of a project by discouraging the participation of certain contractors.”

Sullivan says PLAs benefit unions while harming taxpayers.

“Prevailing wages raise the pay and benefits of a chosen few at the expense of the many,” Sullivan said. “PLAs can result in higher costs to taxpayers by discouraging nonunion contractors, who make lower bids for the project, from competing for the work.”

Ashley Herzog (aebristow85@gmail.com) writes from Cleveland, Ohio.
Maine Lawmaker Proposes Workplace Freedom Bill

By Tony Corvo

A Maine lawmaker is sponsoring a bill to prohibit requiring union membership as a condition of employment in private-sector and public-sector workplaces.

State Rep. Larry Lockman (R-Amherst), the primary sponsor of Legislative Document 489, says his bill would encourage economic growth in Maine and empower workers to decide whether they wish to join a union or donate to the union.

Currently, workers in some workplaces are required to contribute money to unions, regardless of whether they wish to be represented by a union.

‘It Covers Everything’

“LD 489 is a public- and private-sector right-to-work bill,” Lockman said. “It covers everything that needs to be covered. It makes unions entirely voluntary.”

‘Magnet for Entrepreneurs’

Lockman says empowering workers is the key to making Maine a regional economic leader.

“If we became the first New England state to become a right-to-work state, we would become a magnet for entrepreneurs and businesses that want to escape the shackles of compulsory unionism,” Lockman said.

Accelerating Changes

Ohio University economics professor Richard Vedder says economic trends have seen an increase in right-to-work laws.

Twenty-five states have laws protecting voluntary worker association and dues collection. Vedder says the spread of right-to-work protections has been surprisingly quick.

“If you would have told me 10 years ago that Wisconsin and Michigan would today be right-to-work states, I would have said you were smoking something,” Vedder said.

Tony Corvo (tcorvo54@gmail.com) writes from Beavercreek, Ohio.

INTERNET INFO


Nebraska Lawmakers OK Steep Gas Tax Hike Over Governor’s Veto

By Jen Kuznicki

Nebraska lawmakers overrode Gov. Pete Ricketts’ (R) veto of a proposed gasoline tax hike, increasing the state’s gas tax from 25.6 cents per gallon to 31.6 cents, a 23.4 percent increase.

Once the tax hike is fully phased in, Nebraskans will pay more than 51 cents in state and federal taxes on each gallon of gasoline purchased.

Douglas Kaplan, president of Nebraska Taxpayers for Freedom, says the state should reduce wasteful transportation spending before hiking taxes.

“The governor is in the process of appointing a new head of the Department of Roads here in Nebraska [who] will find a way to make suggestions for financing the repair of our bridges and roads,” Kaplan said. “Our Department of Roads has one of the highest overhead and labor costs. Instead of raising the gas tax, the Roads Department should outsource and privatize some of the construction.

“Impressive changes have been less than satisfactory, and they’ve had to go back and do work over again,” Kaplan said. “This is why we would like a lot of the work outsourced.”

Sending Taxpayers ‘Reeling’

Kaplan says the new taxes will squeeze Nebraskans’ wallets at the gas pump.

“All those taxes will now go into effect, and we are reeling because of it,” Kaplan said.

Anthony Rufolo, professor of urban studies and planning at Portland State University, says congressional mismanagement of the National Highway Trust Fund (NHTF) is hurting states’ ability to finance road construction through traditional means, such as gas taxes.

More than 50 percent of Nebraska’s money for road construction comes from NHTF funds.

“At the federal level, [NHTF] has basically gone bankrupt. Congress’s budgeting far exceeds revenue. States now have to proceed far more carefully in getting their own revenue.”

ANTHONY RUFOLO
PORTLAND STATE UNIVERSITY

“Draining the Fund”

Rufolo says federal diversion of NHTF money away from road construction is the cause of federal transportation funding woes.

“The big drain on the Highway Trust Fund is the money that goes to public transit,” Rufolo said. “[NHTF] has ceased being based on a user charge and has funded projects that have nothing to do with maintaining and building our roads.”

Jen Kuznicki (jenkuznicki@gmail.com) writes from Hawks, Michigan.
By Amelia Hamilton

Alabama’s Department of Revenue is proposing administrative changes to the state’s interpretation of existing tax law to extend existing taxes on videocassette rentals to include online streaming services such as Netflix and Hulu.

‘Policy Change’
Chris Edwards, director of tax policy studies for the Cato Institute, says the state’s tax collectors are overreaching their authority.

“The most outrageous thing about it is that the state tax agency seems to want to expand, [actually] create this tax, without legislative approval,” Edwards said. “This seems to be a policy change, and policy changes should be voted on by the people’s representatives in the legislature. There’s an executive branch overreach problem here.”

A Matter of Fairness
Edwards says the Department of Revenue’s proposal is unfair and would place excessive administrative burdens on businesses and consumers.

“You have to look at the fairness, you have to look at the administrative burden, and Alabama should look at if they’re going to kill new online business here and if it will damage the broader economy,” Edwards said.

“The government, of course, is looking at the financial impact all wrong,” Edwards said. “There is a more basic question here about where that extra $5 million or $10 million would better serve the economy, in the hands of the Department of Revenue or remaining in the individual’s pocket.”

Edwards says the Netflix tax proposal reminds him of executive policy actions implemented by President Barack Obama.

“It’s an ongoing battle, the executive branch overreach here,” Edwards said. “We’ve seen similar things with the Obama administration, of course. The Obama administration has imposed policies that are not proper executive branch decisions to make. They should be decided in the legislature.”

Creating a New Tax
Cameron Smith, state programs director for R Street Institute, says Alabama’s taxmen should collect existing taxes rather than make up new ones.

“The big issue for me is that state governments have a lot of authority to decide how they want to tax, and that’s fine,” Smith said. “The challenge is who gets to make that decision, because this is a substantively different tax than the one already on the books. That decision should be left to Alabama’s legislature.

“This should not be something that the Department of Revenue unilaterally decides. Well, we’ll just update the taxes to the times,” Smith said. “It’s sort of like saying, ‘We have a horse and buggy tax, so we’re going to tax automobiles, too.’ I think you have to [acknowledge] this is materially different technology.”

Constitutional Concerns
Smith says the power to create new taxes should be reserved for elected officials, not bureaucrats.

“It’s important to make sure that the elected representatives of the people are making the policy regarding how citizens are taxed,” Smith said. “It’s tempting to have commissioners and other bureaucrats make these decisions, because it doesn’t require a lot of political courage.

“At the end of the day, we have systems and structures in place that are there as a matter of law and, specifically in state constitutional law, of who has what authority, and we need to make sure that those who are elected by the people are making the decisions, especially when it comes to who gets taxed,” Smith said.

INTERNET INFO

“The Libertarian Mind belongs on every freedom-lover’s bookshelf.”
— SENATOR RAND PAUL

“The Libertarian Mind is so convincing critics will want to condemn it, regulate it, tax it, fleece it, and forbid it. Fortunately, good ideas haven’t been outlawed — yet.”
— PETER TIBEL, technology entrepreneur and investor, author of Zero to One

“Boaz’s message is both timeless and extraordinarily relevant to the challenges that we are facing today. It deserves to be read carefully and thoughtfully by everyone who truly cares about creating a more ethical and prosperous world.”
— JOHN P. MACKAY, Co-founder and Co-CEO, Whole Foods Market

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IN OTHER WORDS . . .

“We have received concerns from several members of the legislature and other interested parties that the amendments [placing a tax on Internet streaming services] may be overly expansive and may also be considered a new tax, in which case the Alabama Legislature would be the proper governmental body from which to make a determination or enactment,’ the letter [sent to revenue commissioner Julie Magee from state lawmakers] said.

“The revenue department, which declined to comment on the letter, has previously defended the measure. Officials say the tax isn’t new but a mere clarification needed for an out-of-date code created before the digital era.”


Amelia Hamilton (mail@amelia hamilton.com) writes from Traverse City, Michigan.
By Amelia Hamilton

House lawmakers are reviving a bill they say will hold the Federal Communications Commission (FCC) more accountable to the public and would provide greater congressional oversight.

The Federal Communications Commission Process Reform Act, introduced by Rep. Greg Walden (R-OR), was approved by the U.S. House of Representatives during the 2014 legislative session but was blocked by the U.S. Senate.

The bill, now under consideration for a new vote before the House, would require FCC to operate in a more transparent manner and order FCC to create procedures for objectively evaluating proposed rules.

Watching the Regulators

Mark Jamison, director of the University of Florida’s Public Utility Research Center, says increasing the transparency of how government regulators operate is a win for everybody.

“For any regulatory agency like the FCC or [the Federal Energy Regulatory Commission] that’s regulating utilities, utility infrastructure-type services, it is critical for people to be able to see how the regulation process is working so that they have confidence in it,” said Jamison. “[It’s also] critical to keep it from being biased toward some particular stakeholder.”

Need for Regulatory Certainty

Jamison says agency transparency is essential for investors and innovators.

“Without it, you have short-term regulatory policy decision-making that is influencing very long-term investments, and those two planning horizons don’t mix,” Jamison said. “If someone is making a 20- or 30-year investment, they need to have confidence that the rules are going to apply for an extended period of time.

“Transparency is how we regulate the regulator,” Jamison said. “We’re able to look over their shoulders and see what they do and how they do it, and that’s our method, one of our methods, of holding them accountable.”

Who Needs Them, Anyway?

Seton Motley, president of Less Government, says FCC has many problems, indicating a need for increased congressional oversight.

“There’s no transparency, there’s no openness, there’s no ultimate need for its existence,” Motley said. “It’s another politicized entity. They needed to pass the Internet order [mandating net neutrality] before we could find out what was in it.”

‘A Waiter for Google’

Motley says FCC’s net neutrality order, approved in May, shows the agency is opaque to most of the public and shows favoritism toward certain stakeholders.

“There was a fabulous example of selective transparency,” Motley said. “No one was allowed to see the order, then Google said they didn’t like part of the order, [saying], ‘We want to change it,’ and the chairman said, ‘Okay, we’ll change it.’

“First of all, what is the chairman? A waiter for Google?” said Motley. “Second of all, how did [Google] know what was in it if we can’t see what’s in it? It’s because it was selective transparency. So when they close the doors on everything, it becomes a crony-fest for whoever actually gets a peek inside the door.”

Amelia Hamilton (mail@amelia hamilton.com) writes from Traverse City, Michigan.
Experts Urge: Don’t Over-Regulate E-Cigarettes

By Andrea Dillon

State lawmakers in New York are proposing banning indoor e-cigarette use in publicly and privately owned businesses using the state’s Clean Indoor Air Act.

Dr. Michael Siegel, a professor at the Boston University School of Public Health, says lawmakers’ tough stance on e-cigarettes is full of hot air.

“As of now, there is no solid scientific evidence to document that vaping poses any substantial public health risk for bystanders,” Siegel said. “In fact, there has not yet even been a study documenting significant levels of toxic chemicals in actual environments where vaping is taking place, not in an experimental chamber.

“While there have been some chemicals detected in e-cigarette aerosol, the levels of these chemicals are quite low, and it is not clear that they pose any acute hazard. Nor is it clear that they pose a long-term hazard,” Siegel said.

Tobacco Harm-Reduction Benefits

Siegel says banning e-cigarettes to prevent indoor pollution is a premature overreaction.

“My general feeling is that the government should not step in to ban a behavior unless there is documented evidence of a significant public health hazard,” Siegel said.

Siegel says the use of e-cigarettes as harm-reduction tools for smokers should be encouraged.

“It is absolutely a good thing that electronic cigarettes provide a valid alternative for so many smokers who are unable to quit using traditional strategies, such as nicotine replacement therapy or smoking cessation drugs,” Siegel said.

“There is strong evidence that the use of e-cigarettes has been associated with a reduction in cigarette consumption,” Siegel said. “Clinical trials suggest that smoking cessation rates with e-cigarettes are at least as high as they are with the nicotine patch. So, e-cigarettes must be viewed as a bona fide smoking cessation strategy.”

Confusion About Pollutants

Bridgewater State University professor Aeon Skoble says lawmakers may be confused about the nature of e-cigarettes.

“As recent studies have shown, there’s no evidence that vaping produces secondhand pollutants along with the water vapor,” Skoble said. “Maybe vaping conjures associations with smoking that some elites find aesthetically unappealing, so they’re looking to ban this also under the preexisting umbrella of smoking bans, but that’s clearly an overreach not supported by any science.”

Violations of Property Rights

Instead of one-size-fits-all government bans and regulations, restaurateurs should be allowed to meet the demands of their clientele, Skoble says.

“The very concept of a property right is violated by laws restricting the owner’s use,” Skoble said. “Also, even leaving aside the philosophical issue, property owners should be in charge of setting the use rules for their own property, for local-knowledge reasons.

“Not every establishment has the same atmosphere, appeal, or customer base, so one-size-fits-all mandates from on high are sure to be missing something,” Skoble said. “A particular restaurant owner will know best whether his or her clientele wants smoking banned or permitted or would be happy with segregated seating areas.

“Let owners decide what’s best based on what their customers are telling them,” Skoble said.

Andrea Dillon (thell1885@gmail.com) writes from Holly Springs, North Carolina.
The Internal Revenue Service’s Taxpayer Advocate Service, an independent advocacy office within the agency, says some reporting requirements for expatriate Americans are duplicative and unnecessary.

The Foreign Account Tax Compliance Act (FATCA) requires expatriates to fill out two forms to report the same information to the Department of the Treasury. The Taxpayer Advocate suggests merging the forms to reduce the regulatory burden on Americans living abroad.

"FATCA Does It All Wrong"

Brian Garst, director of policy for the Center for Freedom and Prosperity, says FATCA needs more reform than just merging two forms into one.

"FATCA has many serious problems," Garst said. "First and foremost, it’s completely unnecessary. The United States already has the highest tax compliance rate in the developed world, but even if there was a problem worth addressing, FATCA does it all wrong."

Garst says U.S. tax laws impose high regulatory costs on other countries, making foreign banks less willing to do business with American investors.

"FATCA is also impractical and totally out of proportion," Garst said. "It’s costing the world hundreds of billions of dollars to comply with but has been estimated to bring in around only $1 billion per year in revenue. Plus, it exacts a high price on Americans overseas, in terms of added paperwork burdens, privacy erosion, and huge inconveniences from being denied services by local financial institutions."

Expansive Definition

Richard Rahn, a senior fellow of the Cato Institute and chairman of the Institute for Global Economic Growth, says FATCA is too vague to be properly enforced.

"Not everyone seems to know what a financial institution is," Rahn said. "People think of banks, but there’s all kinds of insurance companies, a whole variety of companies that hold money in one form or another. In fact, some of the domestic regulations are extended to auto dealers, and pawn shops, and on and on and on, so this definition could be so expansive as to include everything."

Rahn says FATCA was designed to pry into private citizens’ financial records.

"The basic objective was to get full information about Americans who may have accounts in foreign countries that they perhaps are not paying taxes on," said Rahn. "That was the motivation."

My view on this from the very beginning was that this was going to be a disaster, and it’s turned out to be exactly as predicted."

Where’s the Authority?

Rahn says the government lacks the authority to force foreign banks to comply with U.S. government demands.

"First of all, there’s the question about the right of the United States to require foreign financial institutions to supply information to the IRS," Rahn said. "If these financial institutions do not have U.S. branches, where is the authority to do this?"

‘Used to Punish People’

The government’s real-world use of FATCA differs from the stated goal of the law, Rahn says.

"The argument originally was revenue, that these people should pay their fair share, etc.,” Rahn said. “The purpose of taxes, in theory, is to raise revenues to operate the government. It’s not supposed to be used to punish people. Increasingly, taxes are being used to punish people," Rahn said. “From an economic standpoint and from sound public policy, taxes shouldn’t be used to punish people; they should be used to raise revenue."

Rahn says tapping some sources of extra tax revenue is just not worth the effort.

"If the tax can’t be collected, then we shouldn’t bother having it," Rahn said. "If folks can find so many loopholes to avoid the tax, the sensible thing is to abolish the tax rather than to waste taxpayer resources on trying to collect the uncollectable."

Jeff Reynolds (jefferyreynolds@comcast.net) writes from Portland, Oregon.
Ohio Cab Company Owner Challenges Taxi Regs

By Matt Hurley

A n Ohio businessman’s challenge to artificial restrictions on the number of taxicab companies allowed to operate in the city is prompting lawmakers to recommend removing the cap.

Green Cab founder John Rinaldi sued the City of Bowling Green, arguing the city used caps on taxi permits to protect city-owned shuttle services from competition. City ordinances allow a total of 16 taxicab licenses to be issued to companies wishing to operate in the city. The Institute for Justice is representing Rinaldi in the suit.

The city’s municipal administrator and attorney recommend repealing the ordinance, as they were unable to determine why the cap had been enacted in the first place.

Protecting Government’s Interests

Institute for Justice attorney Meaghan Forbes says the Bowling Green Taxicab License Board, staffed by the city’s safety director and two appointees selected by the mayor, is using the ordinance to protect favored companies.

“The government can protect public safety, but that is not the case when it comes to these types of limits,” Forbes said. “It is unconstitutional for the government to use its power to protect itself or certain favored businesses from competition. It is not the government’s role to decide how many businesses a community needs. Green Cab’s story is a perfect example of why the government should not limit the number of businesses in a community.”

Restricting Supply

Trinity University associate professor of economics Sean Barrett says city governments should get out of the business of regulating taxicab companies. Barrett says deregulating the industry will discourage the practice of reselling taxicab permits and taxi medallions.

In 2002, Barrett studied the effects of taxicab regulation on Dublin, Ireland consumers and found customer service improved under deregulation, with wait times during high-demand periods declining significantly.

“Governments should not limit the number of taxicabs in any area,” Barrett said. “Permits should not have a market value. They will not have such value if the authorities do not restrict supply.”

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

Uber Prevails in Regulatory Battle Between Kansas Governor, Legislature

By Tony Corvo

Ridesharing company Uber is back in operation in Kansas after an intense legislative battle between the state legislature and Gov. Sam Brownback (R).

After Kansas lawmakers overrode Brownback’s veto of a bill requiring ridesharing drivers to undergo government background checks and purchase insurance policies providing at least $1 million in per-incident coverage, Uber suspended operations in the state.

The bill prompting Uber’s pullout also requires the company to collect confidential information about the status of drivers’ finances, adding more regulatory paperwork for transportation network companies and increasing compliance costs.

A few weeks later, Brownback signed a bill reducing the state’s regulations on ridesharing companies such as Uber, allowing the popular company to resume serving Kansas’ consumers.

Protecting Entrenched Interests

Johnson and Wales University associate economics professor Adam Smith says government regulators and special-interest groups often claim consumer protection is their intent when their true goal is to enrich their own interests.

“The main reason is entrenched interests, such as the old cab companies—the ones that usually allocate cabs by some kind of medallion-like system—and government agencies,” said Smith. “[They want to limit the market so they] can get higher fares and raise more tax money for the city.

“Entrenched interests are already a part of government, so of course any time those interests get threatened by new competition, they can always look to government as an ally,” Smith said.

“Government regulations always seem to be put in terms of serving consumer interests, and we can always look at the nominal laws and regulations and agree they may make sense,” said Smith.

Stopping Competition

Jeffrey Tucker, the chief liberty officer of Liberty.me, says government regulations on peer-to-peer economy companies such as Uber are pushed by a coalition of crony capitalists and government busybodies.

“Municipal taxi companies themselves are backing these regulations,” Tucker said. “They are the ones pushing for them to stop competition. That’s the purpose of the regulations; it’s not to protect consumers.”

‘No Interest’ in Customer Service

Tucker says pro-consumer innovations of Uber and other ridesharing services threaten the government-backed monopoly on for-hire transportation.

“Alternatives to city taxi monopolies are not just cheaper, the drivers are more helpful, more anxious to serve their customers, and have a very strong investment in wanting their customers to come back to use their services,” Tucker said. “Municipal taxis don’t really have that. Most city taxis don’t know who their passengers are and have no interest in them.”

Defining the Future

Instead of fighting the future, government regulators should work to encourage innovation, Tucker says.

“We are all carrying these miraculous communication devices in our pockets,” Tucker said. “We now have the technology to connect all kinds of consumers to all types of service providers directly.”

“This peer-to-peer revolution is changing our economic structure, including the way we work, live, travel, and buy,” Tucker said. “It is getting masses of people invested in market-based solutions. The ramifications of that, politically and socially, are immense and epic and will continue to define the economics and politics of the twenty-first century.”

Tony Corvo (tcorvo54@gmail.com) writes from Beavercreek, Ohio.
BOOK REVIEW

Using Pop Culture to Explain Economics

By Jay Lehr, Ph.D.

Have you ever taken an economics course in school, filled with incomprehensible graphs and equations, taught by instructors who seemed to be disconnected from the real world? If so, and even if not, learning how simple economics is and how easily economic theory can be applied to everyday life is far from impossible. The new book by Forbes magazine economics editor John Tamny, Popular Economics: What the Rolling Stones, Downton Abbey, and LeBron James Can Teach You about Economics, can make that happen for you.

‘Pulling Aside the Curtain’

Popular Economics uses real-life stories about recognizable people in popular culture to illustrate what can sometimes seem like an arcane field of study. In the foreword, Steve Forbes states Tamny’s book does “what Toto did to the Wizard of Oz, pulling aside the curtain to expose the fraud that has become modern economics.”

This analogy is apt. Tamny’s book transforms economic principles from what may seem like obscure voodoo into easily comprehensible ideas.

Consumers Win

Tamny’s knowledge of sports, movies, and business is almost encyclopedic. His engaging tales put you in the shoes of his central characters, allowing you to vividly imagine a day in their lives. For example, using the story behind Netflix’s creation, Tamny explains how competition and innovation benefit consumers.

More than a decade ago, before Reed Hastings started Netflix, Blockbuster reigned as the largest video rental chain, with 60,000 employees and more than 9,000 stores.

After Hastings was charged $40 in late fees for a video rented from Blockbuster, he got the idea of sending rented DVDs to consumers through the mail. Netflix was born.

Blockbuster could not compete with Hastings’ innovative new idea, and in 2010 it closed its doors for good.

Smartest People in the Room

Most politicians do the wrong thing for their constituents while thinking of themselves as smarter than anyone else in the room, Tamny says.

For example, did you know President Richard Nixon devastated the world’s economy by removing the dollar from the gold standard? Tamny explains how this decision’s catastrophic effects are still being felt to this day.

Tamny says, using tales of intriguing characters both real and fictional, it is only the rare public official who possesses the knowledge to make good decisions about the economy. Those who truly understand economics often stay out of the halls of public office, recognizing better fortunes are to be made in the private sector.

The book explains too many in the private sector collude with the government to enhance their riches, creating what is called “crony capitalism.” These crony capitalists undermine at least one of the three legs essential for a successful economy: the free market, the rule of law, and property rights.

A Better Understanding

Readers will close the cover on Popular Economics with a newfound understanding of how personal taxation is a penalty against an individual’s hard work, and how government spending creates no useful jobs.

Other stories that may surprise readers include parables of how capital gains taxes and estate taxes impede innovation, and why wealth inequality is natural and not necessarily indicative of social injustices.

The book’s most compelling part is the explanation of how economic recessions cleanse the economy of weak companies that are otherwise misallocating resources, freeing those resources to be used for more productive enterprises, just as natural fires improve forests’ overall health by clearing out dead wood.

Whenever government attempts to rescue businesses and control recessions, Tamny explains, it starts a domino trail of bad decisions and poor guesses, leading to a real financial crisis.

By using examples from fictional entertainment and real-world events, Tamny weaves a tale of economics accessible to readers of all backgrounds. Readers will be both educated and entertained by his stories, ending up with a solid understanding of how and why our world works the way it does.

Jay Lehr, Ph.D. (jlehr@heartland.org) is science director of The Heartland Institute.

IN OTHER WORDS . . .

“You hold in your hands one of the most subversive economics treatises since Karl Marx’s Communist Manifesto, published in 1848, or John Maynard Keynes’s General Theory of Employment, Interest and Money, published in 1936. While Marx desired to undermine the social order of free markets, property rights, and minimal government, John Tamny wants to restore what was in place before the past century’s Great Depression and two world wars. Indeed, he would strengthen the freedom-enhancing and prosperity-creating institutions and practices that flourished before these twentieth-century calamities.

While Keynes wanted government to steer the economy—as a driver does an automobile (an utterly illusory goal)—through manipulations of money, interest rates, taxes, and government spending, Tamny wishes to do the opposite: slash tax rates, radically simplify the tax code, let markets set interest rates (the Federal Reserve would ultimately be consigned to the Smithsonian), institute a gold standard to stabilize our money, end government bailouts of all kinds, and cut government to the minimalist role originally envisioned by our Founders.”

— Steve Forbes, Foreword to Popular Economics: What the Rolling Stones, Downton Abbey, and LeBron James Can Teach You about Economics
PolicyBot™ is The Heartland Institute’s online database and search engine offering reviews and the full text of more than 35,000 articles and reports from 350 think tanks and advocacy groups.