Scottsdale’s Scaredy Cops Hide Police Station’s Location

By Cheryl K. Chumley

The Scottsdale, Arizona City Council has voted 7–0 to spend nearly $2 million for a new police station—and refuses to disclose where the building is located.

In addition to keeping the location secret, the city council also has kept its discussions secret. Council members made the decision to spend $1.87 million for the secret police station with no public discussion.

The building, an office-warehouse mix, is planned for the Scottsdale Police Department’s Investigative Service Bureau. Council members approved the expenditure as part of their consent agenda: items of a mundane or non-controversial nature that are normally batched together and passed without discussion.

The city rarely handles real estate transactions that near $2 million, according to Arizona Republic reporter Peter Corbett, who first reported the story. Corbett declined to comment further on the issue.

So why the unwillingness to release the location?

POLICE, p. 3

Illinois Gov. Vetoes Gambling Measure Pitched as Revenue, Jobs Bill

By Whitney Stewart

Illinois Gov. Pat Quinn (D) has vetoed a bill that would have vastly expanded gambling in Illinois, in the process bucking many legislators in his own political party and fellow Democrat Rahm Emanuel, mayor of Chicago.

The bill had been promoted as a way to boost state government revenues and jobs, but Quinn cited Chicago’s and the state’s unsavory history of politics influenced by organized crime and insider dealings as a big reason for his veto.

“We’re not going to have loopholes for mobsters in Illinois,” said Quinn in announcing his veto. “The bill that was on my desk was woefully deficient when it came to protecting integrity and honesty and regulation of gambling in our state.”

Two of Quinn’s immediate predecessors, former Republican Gov. George Ryan and former Democrat Gov. Rod Blagojevich, are in federal prison for corruption.

GAMBLING, p. 2
SB 1849 would have allowed a casino in Chicago and four other locations, created six new racetrack casinos or “racinos,” and allowed hundreds of additional slot machines at all the existing casinos.

A report commissioned by the Illinois Jobs and Revenue Alliance said expanding gambling would have created 20,451 jobs.

Des Plaines a Winner
Meanwhile, a state report shows Illinois’ newest casino has increased gambling revenues for the state, apparently at the expense of some other casinos.

The Rivers Casino in Des Plaines, a suburb near Chicago’s O’Hare International Airport, opened last year. With nearly a year of operation under its belt, it is likely the reason casino revenues and admissions have risen.

Casino revenues across the state rose 22 percent from January through May to $608.7 million over the $570.7 million collected in the same period in 2011. Although patronage dropped at six of the state’s 10 casinos, total casino admissions in the state rose 23 percent.

Losers Elsewhere
The numbers don’t please officials in several of Illinois’ other casino cities.

“Any time you introduce a new gaming property into a jurisdiction, those that are already in that jurisdiction will suffer a loss of revenue,” said Jim Murphy, assistant to Joliet Mayor Thomas Giarante.

Murphy said the opening of the Harrah’s Casino in Joliet in 1992 proved a boon to the city, which he called a “poster child” of distressed river towns that needed to revitalize economically and rebuild infrastructure.

BAD BET
University of Illinois Business Professor John Kindt, a nationally known critic of economic growth through gambling, said gambling should be phased out of the state altogether.

“In contrast to proponents’ claims of economic growth through gambling, Kindt and fellow academic William Thompson of the University of Nevada say the expanded gambling would have cost about 15,000 jobs per year.

Slot machines make up the majority of casino business and take in an average of $300,000 per machine annually. That’s money people aren’t spending on food, clothing, cars, appliances, or other things, Kindt said, and for every slot machine, one job is lost from the consumer economy every year.

“Slot machines don’t create any jobs at all,” he said. “You just dust them off and they keep taking money.”

Kindt cited the 1999 National Gambling Impact Study Commission, which called for a pause on gambling expansion, and additional academic research pointing to the ill effects of gambling on the economy, to say nothing of the social ills it causes.

“The state of Illinois is doing just the opposite of what all the federal and academic experts recommended,” he said. “It’s time for people to say the economic emperor of gambling is wearing no clothes. There’s no justification for this gambling expansion bill.”

-- Whitney Stewart
location of the facility? Arizona Public Records Law requires governments to allow citizens access to most records, albeit with certain exceptions. None of the council members contacted for comment responded. The mayor, meanwhile, was out of town, according to his chief of staff, J.P. Twist.

At the meeting, according to Corbett’s report, a Scottsdale police spokesman said the location was secret in order to protect the officers.

“We don’t want to put lives in jeopardy,” he reportedly stated.

Kelly Corsette, communications and public affairs director for the City of Scottsdale, explained similarly in an email: “A substantial number of police undercover personnel will work out of this building. Therefore, in the interest of the safety of our officers and the integrity of future undercover investigations, the city will not disclose its precise location. Redacted versions of the purchase agreement and the property appraisal have been provided to media upon request.”

Seller Also Hidden

The Arizona Republic reportedly has filed a public records request to obtain more information about the building, including the name of the seller—which the city is also withholding—and its exact location. Dan Barr, an attorney practiced in Freedom of Information Act issues and Arizona state laws regarding open records and public meetings’ laws, characterized the city’s secrecy as baffling.

Moreover, the building’s sale creates a public record in the county recorder’s office, he said, while the justification offered by the city to exempt the location from public record does not hold water legally.

“The Arizona public records law is fairly broad,” said Barr, an attorney with a Phoenix firm who does work for the National Freedom of Information Coalition. “But there’s nothing in the statute that would exempt this information.”

Corsette did not cite the specific section of Arizona’s public records law that allows the facility’s location to be kept secret. Rather, she cited a 1984 court case.

City Claims Wide Latitude

“Arizona public records statutes have been defined and interpreted by the Arizona Supreme Court,” Corsette said. “Arizona Supreme Court decisions establish legal precedent and have the same legal effect as a statute. The Arizona Supreme Court decision in Carlson v. Pima County 141 Ariz. 487 (1994) and other decisions authorize the decision that Scottsdale has made to keep the location of this facility confidential.”

Carlson v. Pima County, according to SunshineReview.org, was a case that considered the release of prisoners’ offense reports and questioned whether those documents were public record.

“The court ruled in favor of the inmate,” SunshineReview.org reported, “and in so doing, eliminated the distinction between public records and ‘other matters,’ in favor of a comparison of the interests of privacy and the policy of openness with regard to whether records should be released.”

In effect, the case gave government, or the holders of government records, more leeway in determining whether privacy trumped the public’s right-to-know in requests for documents.

Lucy Caldwell, a spokesperson at the Goldwater Institute, an Arizona-based nonprofit dedicated to preserving individual liberties, said Scottsdale was normally known for its open governance.

‘Everybody Knows Where CIA Is’

Barr said most people in the vicinity already know where the facility is located, given its expansive 17,827 square feet. But it’s the principle of the government withholding the information, coupled with the flimsy justification that’s cited, he said, that’s the bigger issue.

“They say officers’ safety is the reason. But look at the CIA building. Everybody knows where the CIA building is,” he said. “Really, if you just stood outside the building and watched everybody going in and out, then you would know who the officers are.”

DAN BARR, ATTORNEY
PHOENIX, ARIZONA

“Everybody knows where the CIA building is. Really, if you just stood outside the building and watched everybody going in and out, then you would know who the officers are.”

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Behind-the-Scenes Lobbying for Takeover of Chicago-area Transit

By John L. Gann, Jr.

Urban planning activist George Ranney and the advocacy organization he heads, Metropolis Strategies, are campaigning for the seven-year-old Chicago Metropolitan Agency for Planning (CMAP) to take over the Regional Transportation Authority (RTA) and become the new head of public transit around Chicago.

Ranney complains vaguely that declining ridership, the relationship between RTA and transit providers, and a transit system “in danger of becoming derelict” call for the change.

According to the Chicago Tribune, Ranney and his staff have been lobbying county officials, state legislators, and Gov. Pat Quinn (D), Palos Hills Mayor Gerald Bennett, chairman of CMAP, professes his agency’s ignorance of the plan specifics and says his board has taken no position on the takeover. But it strains credibility that Ranney and company could be pushing the proposal with political leaders without CMAP’s tacit approval.

Acquiring RTA would massively boost CMAP’s budget and authority. So is the plan really the path to better transportation or just a simple power grab on the part of regional planners aided by their activist allies?

$10 Million Savings?
The RTA, a $32 million (net of pass-through funds) public agency, handles planning, funding, and oversight for public transportation in the region and has authority to approve budgets and capital plans for the Chicago Transit Authority, Metra (commuter rail), and Pace (suburban bus service). It levies a sales tax, almost all of which is passed through to these providers. Ten members of the RTA board represent the suburbs, half of them from Cook County, with five more members representing Chicago, which is located in Cook County.

CMAP, a $15 million public agency, was set up by the state government approximately seven years ago under the Blagojevich administration to prepare plans and studies for transportation, energy, water, and land use for the Chicago area. It is funded largely by the U.S. and Illinois Departments of Transportation. Ten suburban elected officials serve on its 16-member board.

CMAP is the product of a fraternal war between its predecessors, the Chicago Area Transportation Study (CATS) and the Northeastern Illinois Planning Commission (NIPC). The fight was over which should be the USDOT-designated Metropolitan Planning Organization (MPO) and recipient of the significant authority and federal funding support that come with the designation. The battle led to the demise of both CATS and NIPC and their replacement with a single new agency, CMAP.

Ranney claims the takeover of RTA would eliminate duplication and save $10 million a year, but the plan raises a few concerns and questions:

1. Limited Regionalism
Regional government agencies in Chicago have heretofore been single-purpose in nature. A CMAP takeover of RTA would create a large dual-function regional agency doing regional planning and transit management.

2. Sales Taxes for Planning?
In a takeover, CMAP would inherit RTA’s taxing power. Of the multiple regional planning bodies in Chicago’s past, none has ever been given taxing authority.

3. Two Heads Better than One
Having two agencies, RTA and CMAP, weighing in on local transit policy offers better checks and balances than a single monolith. Currently RTA and CMAP can disagree. Debate, negotiation, and compromise often produce better decisions.

4. New Managers or Better Management?
But most important, if RTA’s management of regional public transportation has been found wanting, it is not clear what would be accomplished by simply turning its functions over to another agency.

Especially to be questioned is the favoring of an agency like CMAP that operates in the rarefied world of preparing paper plans for the year 2040 rather than working with operating agencies that have to put buses on streets and trains on tracks every day. There’s a reason they’re called planners and not doers.

And unlike the dispassionate, no-nonsense engineers usually associated with transportation, planners characteristically have a left-of-center ideological agenda they apply to their work. They tend to see transit as not just transportation but also as a tool for social engineering. Planners’ biases and agenda argue against putting them in charge of an important public function like transit management.

In addition, in my experience working with them for decades, I have seldom found planners to be good managers.

The CMAP staff may be a happy exception to all of the above, but that might best be determined before the agency is handed new responsibilities outside the area of planning.

Drawing instead from the best practices of well-run businesses could be most productive in addressing Ranney’s complaint. A professional management consultant—from out of state to better assure independence—might better be hired to assess RTA and find ways it can improve operations and save money. And an expert management audit would certainly take less time and be both less costly and less risky than reshuffling agencies and dramatically and controversially reallocating public money and power.

John L. Gann, Jr. (citykid@uwalumni.com) is president of Gann Associates and an urban development consultant and transit fan. He is a former director of local services at the Northeastern Illinois Planning Commission.
FCC Tables Broadband Tax Proposal

By Tim Kelly

The Federal Communications Commission has withdrawn a proposal to tax broadband Internet service after a public outcry over the issue.

With one FCC official calling the Internet tax “politically toxic,” Republicans and Democrats on the commission are blaming each other for the unpopular proposal.

The proposed broadband tax had flown under the public’s radar screen for months, but it gained wider attention in recent weeks.

FCC spokesman Neil Grace said Chairman Julius Genachowski was always skeptical about a broadband fee because he feared it would impede the development of technology. He claimed the commission made the proposal “following the urging of Republican commissioners and members of Congress.”

Blanket Denial

Robert McDowell, the only Republican on the commission when the proposal was introduced earlier this year, denied ever supporting the proposal.

“I have never suggested taxing broadband Internet access,” McDowell told The Hill newspaper. He added he doubts the FCC even has the legal authority to tax Internet service.

The Internet Tax Freedom Act explicitly prohibits the federal government from taxing Internet services. However, the FCC claims Universal Service is a fee charged to service providers rather than a tax on consumers and is therefore legal.

The Universal Service Fund (USF) was created under the Telecommunications Act of 1996 with the stated purpose of promoting “the availability of quality services at just, reasonable and affordable [telecommunication] rates for all consumers.”

The USF charges higher rates in urban areas in order to provide more affordable rates to rural consumers.

Converted to Subsidy, Rejected

The FCC “modernized” the USF last year, converting it into a broadband Internet subsidy called the Connect America Fund (CAF). The new program aims to provide high-speed Internet networks to underserved rural areas by giving subsidies to broadband service carriers.

However, service carriers have rejected more than half of the $300 million the CAF is initially offering them. AT&T and Verizon have declined all funding. AT&T did not state explicitly why it declined the offer, but the firm did say in a letter to the FCC it was “optimistic” about its plans to expand broadband services in rural areas.

Verizon likewise did not cite a specific reason for the decision, but its letter to the FCC noted the small amount of money involved, $19.7 million. Verizon services are concentrated in the densely populated Northeast states.

Tax Characterized as Reform

Genachowski issued a statement when the Internet tax was proposed saying the current contribution system was outdated and in need of reform.

“Today we propose three goals for contribution reform: efficiency, fairness, and sustainability,” Genachowski said. “And we underscore that any reforms to the contribution system must safeguard core Commission objectives, including the promotion of broadband innovation, investment, and adoption.”

Broadband expansion has been a top priority for Genachowski. He contends a high-speed Internet connection is critical for the economy and that expanding Internet access is the country’s next great infrastructure challenge.

May Hold Up Development

Others argue CAF may impede infrastructure development by distorting markets and subsidizing uncompetitive carriers.

“As structured, the Connect America Fund will slow new investment in potentially competitive technologies while allowing incumbent rural carriers to profit from the grace of government largesse, not through their own innovation,” said Steve Titch, a policy advisor to The Heartland Institute, which publishes Budget & Tax News.

“Burdensome and discriminatory taxes deter the adoption and use of broadband, mobile, and other advanced ICT [information and communication technology] sector tools that are major drivers of growth in the information-based economy of the twenty-first century,” he said.

Tim Kelly (tkelly67@comcast.net) is a political cartoonist, policy advisor, columnist for the Future of Freedom Foundation, and correspondent for Radio America’s Special Investigator.
Hotel Bayerischer Hof, Munich  
November 30 – December 1, 2012

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Financial Transaction Tax Bill to Fund Jobs Programs

By Matthew Glans

Billions of dollars to pay for government infrastructure and jobs programs would be taken out of stocks, bonds, and derivatives trades under a bill introduced by Rep. Keith Ellison (D-MN) and six other House Democrats.

The Inclusive Prosperity Act (HR 6411) would tax the sale of stocks, bonds, and derivatives sold by Wall Street firms at rates of 0.5 percent on stocks, 0.1 percent on bonds, and 0.005 percent on derivatives or other investments. Ellison’s bill is cosponsored by Reps. John Conyers (D-MI), Bob Filner (D-CA), Barbara Lee (D-CA), Jim McGovern (D-MA), Pete Stark (D-CA), and Lynn Woolsey (D-CA).

“The American public provided hundreds of billions to bail out Wall Street during the global fiscal crisis yet bore the brunt of the crisis with lost jobs and reduced household wealth,” said Ellison in a statement. “This is a phenomenally wealthy nation, yet our tax and regulatory system allowed the financial titans to amass great riches while impoverishing the systems that enable inclusive prosperity. A financial transaction tax protects our financial markets from speculation and provides the revenue needed to invest in the education, health, and communities of the American people.”

Aims to End Profitability

Ellison said because stock and bond markets are computerized, a tax would be easy to track and enforce and tough to evade. The tax would make high-frequency trading unprofitable, he said, which could reduce “the excess speculation on commodities like food and gasoline that has caused their prices to escalate.”

Others put much of the blame for rising prices on other factors, especially Federal Reserve monetary policies that weaken the dollar, government ethanol mandates that have 40 percent of the nation’s corn crop going to motor fuel instead of food, and restrictions on oil drilling and building of new oil pipelines.

Critics also say a transactions tax would damage financial markets and cost jobs instead of creating them.

Would it Backfire?

“This tax is particularly odious as it is not only a move to extract more taxes out of a weak economy but it also has another misguided goal: to reduce speculative trading. It’s the speculators who make our markets one of the most dynamic and liquid in the world, and this tax will damage that and eliminate many jobs,” said Jeffrey V. McKinley, principal at Senex Solutions LLC in Chicago, which provides technology-driven accounting and administrative services to hedge funds and proprietary trading firms.

According to a recent study by the Cato Institute, a transaction tax could worsen market volatility. The study found a positive relationship between transaction cost and price volatility. These results suggest “the imposition of a transaction tax could actually increase financial market fragility, increasing the likelihood of a financial crisis rather than reducing it. Perversely, the imposition of a financial transaction tax could have results that are exactly the opposite of those hoped for by its proponents,” wrote Cato authors George H. K. Wang and Jot Yau.

“Financial transactions allocate capital to their most efficient uses. They help create productive jobs. Taxing these transactions limits the flow of capital and destroys jobs,” said economist Robert Genetski, a policy advisor to The Heartland Institute, which publishes Budget & Tax News. “Policies that tax financial transactions would add to the list of destructive policies that have limited the number of well-paying jobs and reduced household incomes.”

“Almost no tax imposed by the money grabbers and wealth redistributors in Congress raises the expected revenue or comes without negative unintended—or perhaps secretly intended—consequences. Among the worst offenders on both scores is a tax on financial transactions,” said Ross Kaminsky, a Heartland Institute policy advisor, independent trader, and investor.

“While those with no understanding of financial markets may think of stock exchanges as a playground of the rich, the majority of Americans—including half of the Democrats and independents—own stock, whether directly or through mutual funds, retirement accounts, or pensions. By making investing less efficient and more expensive, a financial transaction tax harms the financial security of tens of millions of Americans,” Kaminsky said.

Consequence of Bailouts

Economist William Bergman agrees. “My own belief is that transaction taxes hurt the common citizen, on balance,” he said.

“The more important lesson here, however, is how this effort highlights the longer-term consequences of the role of our government in spawning and dealing with our recent financial crisis—the worst since the Great Depression. By avoiding the tougher but more valuable route of allowing market forces to play out and impose losses where they rightfully belonged, the bailouts helped a lot of wealthy people but sowed the seeds of a loss of confidence in capitalism in general. If transaction taxes like these do become the law of the land, we can thank in important part the special-interest groups that pushed for the bailouts,” Bergman added.

“The sponsors note that the federal government needs to spend more on infrastructure programs. Wasn’t that already tried with a very large federal stimulus program early in the president’s term? Did that work? Their proposal seems disappointingly unserious and a distraction,” said Hilary Till, principal at Chicago-based Premia Risk Consultan, Inc.

Matthew Glans (mglans@heartland.org) joined the staff of The Heartland Institute in November 2007 as legislative specialist for insurance and finance. He was named senior policy analyst in 2012.

“It’s the speculators who make our markets one of the most dynamic and liquid in the world, and this tax will damage that and eliminate many jobs.”

JEFFREY V. MCKINLEY

PRINCIPAL

SENEX SOLUTIONS LLC

No Special Economic Effects from State Film Incentives

By Jon Sanders

State film incentives programs are the feel-good production of the year, or so state economic boosters would have you believe.

“Cronyism for the Cool Kids” wouldn’t have the same vibe, would it? My recent report on North Carolina’s film incentives program (“N.C.’s Film Tax Incentives”) carries the subtitle “Good Old-Fashioned Corporate Welfare,” which it is.

Before states began film tax incentives programs, North Carolina was a popular off-Hollywood destination for film crews. A right-to-work state with a pleasant climate and a range of natural landscape features, North Carolina held significant advantages for movie makers.


Incentives Surge

The onset of the incentives changed the movie industry, especially from 2002 to 2009, when the number of states with film incentives programs grew from four to 44. Even lawmakers in California, traditional seat of the industry, felt compelled to use incentives just to stave off what was being called “runaway production.”

North Carolina’s original film incentive program of 2005 was greatly increased after 2009. Now the state offers an open-ended subsidy promising an income tax credit of up to 25 percent of qualifying production expenses, which include the first million dollars’ worth of an employee’s salary as well as employee fringe contributions. It is capped at $20 million per production, and the credits are refundable.

Georgia won the Miley Cyrus movie “The Last Song” sweepstakes because it had recently upped its incentives after being outbid by other states. Meanwhile, North Carolina had outbid Minnesota for the Minnesota-set George Clooney and Renee Zellwegger film “Leatherheads”—the Minnesota-set George Clooney and Renee Zellwegger film “Leatherheads”—and even Louisiana, is beginning to question their film incentives programs, and some, including Arizona, Arkansas, Idaho, Indiana, Iowa, Maine, New Jersey, and South Dakota, have suspended or even ended them.

Several studies have found film incentives return to state coffers mere pennies per dollar revenue spent. Michigan, for example, received only 11 cents in revenue per dollar revenue expended on film incentives. Louisiana fared slightly better: 13 cents. New Mexico’s was 14 cents; Massachusetts, 16 cents. Connecticut got back only nine cents.

Movie Stars Over Teachers

The incentives’ biggest beneficiaries are film production companies, of course. The film offices benefit from having more chips at the bargaining table. Local studios, film crew workers, restaurants, hotels, hairdressers, etc., and pro-incentives politicians receive positive press when productions come to town. Tour-

isem is also said to be positively affected by filming, though tourism effects are fickle, unpredictable, and not very powerful.

Because North Carolina’s film tax credits are refundable, when a film production company’s tax liability is less than its credited amount (which happens often), the state pays the difference directly to the company. Critics have decried that as choosing movie stars over teachers.

Incentives in general have the political power of concentrated benefits for a few with dispersed costs to the many. Nevertheless, many states, including Georgia and “model” states such as Michigan and even Louisiana, are beginning to question their film incentives programs, and some, including Arizona, Arkansas, Idaho, Indiana, Iowa, Maine, New Jersey, and South Dakota, have suspended or even ended them.

Targeted incentives shift production in other industries and, in the case of film incentives, lead to a succession of temporary jobs reliant on continued state subsidies and always under the threat of greater subsidies being passed in other states and nations. Cutting taxes and regulation for all, rather than a favored industry, would lead to greater growth of the state’s economy (and, subsequently, state revenues) through new and permanent job creation—a much more powerful incentive, though without all the ceremony.

Jon Sanders (@jsanders@johnlocke.org) is director of regulatory studies at the John Locke Foundation in Raleigh, North Carolina.
Michigan Voters to Decide on Union Bargaining Rights

By Mary Petrides Tillotson

Michigan voters will decide in November whether to give constitutional authority to unions' collective bargaining rights.

Proposal 2, the Protect Our Jobs Amendment, would establish those rights and prevent state and local governments from interfering with them, according to protectourjobs.com.

The state's supreme court approved the union-backed ballot proposal, after the Protect Our Jobs group appealed the board of canvasser's initial rejection of the proposal.

Analysts say the amendment would harm Michigan's economy by giving unions power over the legislature, repealing an estimated 170 state laws, and prohibiting right-to-work laws.

Union Power

The amendment would turn collective bargaining sessions into miniature constitutional conventions, said Vincent Vernuccio, director of labor policy at the Mackinac Center for Public Policy in Midland, Michigan.

"The proposal's language raises fundamental questions about future control of the terms and conditions of public and private employment in Michigan...." - Bill Schuette

Attorney General - Michigan

State law repeal

Approximately 170 state laws governing unions could be repealed, in whole or in part, under POJA, according to the Mackinac Center, and lawmakers would have little control over what unions can bargain for.

Vernuccio said under POJA, a recent 80/20 law, requiring government employees to pay 20 percent of the cost of their own health insurance, could be repealed if union officials want it repealed. That would end the $500 million the 80/20 law has been saving taxpayers.

Another Michigan law requires school officials not to fire teachers or lay them off based solely on seniority, but under POJA, a teachers union could overrule that law, he said.

The school board would have a say in teachers union contracts, but often, unions have helped elect school board members, who are then eager to comply with union demands, he said.

Right to Work

The proposal would forbid the passage of state right-to-work laws, said Greg Mourad, vice president of the National Right to Work Committee.

States with right-to-work laws, which prohibit making union membership a condition of employment, have been retaining and attracting more employers than forced-union states, he said. Union officials are also more responsive to workers in right-to-work states, he said.

"Voters now have a very important decision to make," Vernuccio said. "Do they want to give union officials more power than legislators and local elected officials, or do they want to move ahead with reforms that could keep Michigan on the path of recovery?"

Mary Petrides Tillotson (mary.c.tillotson@gmail.com), a former Michigan reporter, now writes from Front Royal, Virginia.
“Individuals now planning their financial futures ... should be pricing in a substantial risk that the federal government will not be able to maintain Social Security as a self-financing, standalone program over the long term.”

“[A]ny sacrifices will likely be concentrated on younger generations who already face net income losses from Social Security as it is.”

By Charles Blahous

One of my duties as a public Social Security trustee is to explain the program’s financial condition, both formally as a signer of the annual Board report, and less formally in published summaries, articles, interviews, and Congressional testimony. This evaluation is written pursuant to that responsibility.

Social Security’s future, at least in the form it has existed dating back to FDR, is now greatly imperiled. The last few years of legislative neglect—due to a failure of national policy leadership coming just as the Baby Boomers have begun to retire—have drastically harmed the program’s future financial prospects. Individuals now planning their financial futures, whether as taxpayers or as beneficiaries, should be pricing in a substantial risk that the federal government will not be able to maintain Social Security as a self-financing, standalone program over the long term.

If Social Security financing corrections are not enacted in 2013, or at the very latest by 2015, it becomes fairly likely that they will not be enacted at all. I will first explain how the Social Security shortfall is usually described and approached. Then I will explain why Social Security’s financial prospects are much grimmer than is commonly understood. Finally I will explain why this matters—i.e., the likely consequences if the president and Congress continue to fail to balance its books.

Common Shortfall Measures

Social Security’s long-term financing shortfall is now estimated at 2.67 percent of the program’s tax base (worker wages). Insolvency of the program’s combined trust funds is now projected for 2033 (2016 for its disability program). Figures such as 2033 and 2.67 percent make it appear—in correctly—as though there are several years remaining to act, and only a modest problem to solve.

There is no shortage of Social Security reform proposals that would, at least on paper, successfully shore up the program’s finances. I personally have put forward some, and the Social Security Actuary has scored several others.

Proposals from the right tend to focus on cost containment (for example, slowing the growth of benefits and/or raising eligibility ages), whereas proposals from the left tend to focus on raising taxes. As I explain below, this multitude of proposals in no way implies that a solution is readily achieved.

Solutions More Difficult

The Baby Boomers are starting to retire. Lawmakers have historically been very reluctant to cut benefits for beneficiaries once they start receiving them. This means any sacrifices will likely be concentrated on younger generations who already face net income losses from Social Security as it is. With every further year of delay, lawmakers must therefore consider sharper benefit growth reductions and/or tax increases.

A solution will require substantial compromise by one or both sides. If one person (or a unified political party) commanded total political power and was willing to use it, that person could impose a solution on those who disagree. The last such opportunity was probably 2009–2010, when Democrats controlled both chambers of Congress and the White House. Had they so chosen, they could have shored up Social Security on their own terms. No such attempt was made.

Today no one expects either party will single-handedly control the White House, the House, and 60 votes in the Senate within the next few years. Thus if Social Security finances are to be repaired, someone must dramatically compromise: Either progressives must accept substantial benefit growth reductions, conservatives substantial tax increases, or both.

Unfortunately, as I will show below, we are already long past the point where there is precedent for a compromise of this magnitude.

Urgency vs. Rhetoric

There is a huge disparity between the problem’s urgency and the rhetoric applied to it by substantial factions of the body politic. Even as time is running out for a workable compromise, some continue to play a high-stakes gamble: that if the urgency is downplayed and action delayed past the next few elections, it can be dealt with when the political alignment may be more advantageous to one side.

This gambit has now been extended to the point of imperiling Social Security’s long-term outlook. Too many key players, however, do not yet realize this.

No bipartisan grand bargain has ever eliminated a Social Security shortfall this large.

The historical high-water mark for a comprehensive bipartisan rescue was the 1983 Social Security amendments. The program was then saved from the brink of insolvency. Benefit checks were literally just months away from being interrupted. Both sides agreed on the urgency and immediacy of the crisis, yet very nearly failed to reach agreement.

Twice as Bad

The program’s long-term shortfall in 1982 was measured as 1.82 percent of the program’s tax base. Today it’s measured as 2.67 percent—much larger even on the surface. Yet many don’t realize that the trustees’ methodologies were changed in 1988 to make the shortfall appear smaller. If we still measured as was done in 1983, today’s shortfall would be 3.5 percent of the tax base—nearly twice as large as the 1983 gap.

Today’s long-term problem is not only worse than in 1982–1983, but much worse. Shortfalls over the long term equal roughly 4 percent of the program’s tax base in either case. The big difference is in the near term: we’re now 20 years closer to deficits of that magnitude than they were then, and thus must effectuate large corrections much more rapidly.
Grimmer Than Commonly Understood’

More Ground to Cede
A solution enacted today would require Left and Right to cede roughly twice as much ground as they did in the 1983 reforms, or one side must cede still more. Each year that passes, influential players must retreat still further from their preferred policies. At some point (which we may well be past already), one side, the other, or both will reach the limit of how much they are willing to swallow.

The fate of the Simpson-Bowles Social Security proposal exemplifies how difficult forging a compromise has become. That proposal, developed by the bipartisan co-chairs of President Obama’s Fiscal Responsibility Commission, was Solomonically divided almost 50/50 between revenues and cost constraints (46/54, exactly). The Obama White House distanced itself from the proposal after it was repeatedly attacked by many of the president’s political allies. The proposal failed to receive the requisite support on the commission, with defections on both the Republican and Democratic sides.

Such political heat is only going to grow more intense. Due to subsequent deterioration in system finances, the next solution debated will have to impose even tighter financing constraints than Simpson-Bowles proposed.

Failing Solutions
Some of the toughest solutions proposed already no longer work.

As another illustration of the growing difficulty of solutions, let’s look at the competing approaches of containing cost growth and raising taxes. One longstanding proposal has been to slow future benefit growth to the rate of price inflation for high earners, while allowing low-income earners the higher growth rate of wage inflation, and leaving previous beneficiaries unaffected. But already now, even if we slowed everyone’s benefit growth—from the poorest to the richest—to price inflation, we could no longer maintain solvency while holding harmless those over the age of 55.

Six years of delay have increased the cost of this particular approach. Had across-the-board price-indexing been enacted in 2005, it could have kept Social Security fully solvent, left those over 55 untouched, and generated additional funds to provide for faster benefit growth on the low-income end. Enacted last year, however, such across-the-board price-indexing would no longer be enough: Costs would be substantially higher and the trust funds would be depleted in 2040 unless further measures were taken. And if rescored under 2012 assumptions, this proposal would fare still worse.

The efficacy of tax-increase solutions is also fading with delay. Advocates on the left sometimes argue to increase the amount of Social Security wages subject to the payroll tax. The most extreme version of this proposal would be to raise the amount of wages subject to the full 12.4 percent payroll tax—$110,100 today—up to infinity. Yet even this drastic measure would now fail to keep Social Security in long-term balance as well.

We are thus approaching the point where each side would have difficulty balancing Social Security finances even if it could dictate the solution, and we are rapidly passing the point where a compromise solution remains reasonably likely. What does this mean for Social Security’s future?

Looming Subsidies and Changes
If a financing solution cannot be reached, then Social Security’s self-financing construct would have to be abandoned. Assuming the program continues to pay benefits, it would have to permanently rely on subsidies from the general fund, as Medicare now does. This would be a valid policy choice, but it carries unavoidable consequences. It would mean an end to one of the program’s foundational principles: the requirement that Social Security pay its own way through a separate trust fund. It would also mean an end to President Franklin D. Roosevelt’s conception of an “earned benefit” program in which workers were seen to have paid for their own benefits.

Upon merging into the general fund, Social Security benefits would be far less secure. Benefit payments would have to compete with other annual spending priorities, and would be limited to those deemed affordable given pressures elsewhere in the budget. They would thus be much more susceptible to sudden reductions, means tests, and other episodic changes to which general fund financed programs have long been subjected.

If this all happens, and renders tomorrow’s Social Security benefits less secure than today’s, it would be a tragic irony: The outcome would have been brought about largely by supporters of Social Security having coun- tenanced the tactics of delay to the point that the program’s unique political protections could no longer be preserved.

Those who care about Social Security need to clearly understand the consequence of this ongoing neglect, that time for a realistic financing solution has nearly run out.

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Camden Plans to Fire Its Police Department

By Mike Reid

Camden, New Jersey officials plan to fire the city’s police force and replace the officers with nonunion county police by the end of 2012. Mayor Dana Redd says the plan will save millions of dollars and keep Camden residents safe.

Most police activity does not involve actual emergencies, notes Mike Sharp, who sells and installs home alarms in Camden. “Maybe what the city is going to be pushing is for private security to come in and handle some of this,” he said.

Responding to burglar alarms is a police responsibility in New Jersey, even though as many as 90 percent of all triggered alarms are false alarms, according to Sharp. Professors Simon Hakim and Erwin Blackstone of Temple University, who have researched the rise of private security, say the proportion is even higher: 94 to 99 percent.

Having police officers respond to such alarms is an enormous waste of money, says Hakim. Private security guards could be responsible for this instead, and call in the police only when an actual crime has occurred or is taking place.

‘Bureaucratic Monopolists’

Faced with losing hundreds of jobs, local police officials are vocally opposed to the city’s move. John Williamson, president of the Camden Fraternal Order of Police, told FoxNews.com “this is definitely a form of union-busting.”

But Hakim and Blackstone see the weakening of police unions as a good thing, saying these unions are “bureaucratic monopolists.”

“When there are no private police at all, the police union can demand increased salaries much beyond the productivity of policemen. But once you have competition, and the union knows that certain functions can be taken away from the public police, ... it puts a lid over the payment of policemen,” Hakim said.

Already Cuts to Cops

In an interview with CNN this July, Williamson blamed this year’s rising murder rate in Camden on cuts to the police department last year when 168 officers were let go.

“When you lay off cops, crime goes up, and ultimately, people die,” he said. “You can never, ever put a price on public safety.”

But Hakim and Blackstone point out sworn officers often provide services that don’t require the skills and the training of college graduates or graduates of the police academy. Hence local governments can save money and improve crime prevention by hiring less-skilled officers for many jobs that are being done by police.

For example, earlier this year Camden hired “temporary seasonal police officers” to handle crowd control during its busy summer concert season. A class 1 special officer requires only a few weeks of training and is paid $17 an hour to direct traffic and handle crowd control and petty offenses.

That’s a big savings compared to the $38 to $40 an hour that highly trained police officers might be paid to do the same jobs.

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Obama, Ryan Budgets ‘Should Define This Election’

By Steve Stanek

President Barack Obama’s budget plan would continue policies that have made the economic recovery since 2009 the weakest since the Great Depression, whereas those of Rep. Paul Ryan (R-WI) would return the federal government to its modern average level of spending and growth, says Peter Ferrara, a senior fellow of The Heartland Institute, which publishes Budget & Tax News.

Ryan already had a name for himself with his budget proposal aimed at shrinking the growth of federal spending and the national debt before Republican presidential challenger Mitt Romney picked him as his running mate. That budget proposal has provided ammunition for Democrats to use against Romney and for Republicans to use against Obama. Ferrara conducted a study comparing the Ryan and Obama budget plans, published as a Heartland Institute Policy Brief, in which he writes, “President Obama’s budget establishes a future course that exacerbates the current fiscal problem,” whereas Ryan’s budget “fixes the problem so that it doesn’t eat alive the United States’ world-leading standard of living.”

Ferrara says, “I wrote the report to show the dramatic difference between the Ryan budget and the Obama budget, which I think should define this election. The Obama budget puts America on the expressway to Greece and national bankruptcy, with federal spending and the national debt exploding like the Big Bang.”

Return to Historical Average

Ferrara says the most important point in the Policy Brief “is that for all the yelling and screaming about Ryan’s budget, all it does is return federal spending to its long-term postwar historical average since World War II up until 2008, of 20 percent of GDP [gross domestic product], which it does by 2015, erasing Obama’s one-quarter increase in federal spending.

“The second-most important point is that Ryan’s budget gets the national debt under control, declining every year until it reaches just 10 percent of GDP in 2050—and that is under static scoring by the Congressional Budget Office,” Ferrara said.

Ferrara says Ryan’s Medicare proposal is better for senior citizens than Medicare under Obamacare, and that Ryan’s Medicaid proposal is better for the poor than Medicaid under Obamacare.

“Romney has stayed very close to Ryan throughout this campaign, and in picking him it cannot be said that he left Ryan’s signature work behind. Romney has not said he endorses every detail in Ryan’s budget—probably wise politically to keep some flexibility there—but Romney has explicitly endorsed the entitlement reforms in detail, which are the main event,” Ferrara said. “The House GOP passed the Ryan budget, so it is effectively GOP policy now.”

‘Bigger by Half’

In his Policy Brief, Ferrara writes, “Obama claims his budget would get federal spending under control over the long run, but even his own OMB admits that federal spending would ultimately still soar to 30 percent of GDP, which is 50 percent above the long-run, postwar, historical average. That means the federal government would be bigger by half than under Ryan’s budget, according to Obama’s OMB.”

Chris Edwards, director of tax policy studies at the Cato Institute, said the Obama administration is, in some ways, continuing down the path laid out by President George W. Bush, who sent spending skyrocketing with the help of Republican legislators.

“I am much in favor of the Ryan budget over the Obama budget,” said Edwards, “but ... the big increased spending trend started under Bush.”

Edwards notes federal spending fell to the 18 percent range of GDP during the last two years of the Clinton administration and the Republican Congress, immediately before Bush took office. Spending during the Bush administration increased more than twice as fast as it did during the Clinton administration, and it soon climbed above 20 percent of GDP, he said.

“I give Ryan credit for tackling Medicare and Medicaid in his budget, but he doesn’t tackle Social Security,” Edwards said.

This is a small matter compared to what he does tackle, said Ryan Ellis, tax policy director at Americans for Tax Reform.

“Peter’s analysis, as usual, is right on,” he said. “The key metrics for fiscal conservatism are federal government spending and taxes as a percent of the economy. If these are headed below their long-run average, we’re winning. If these are headed above, we’re losing.”

Lower Taxes

Will McBride, chief economist at the Tax Foundation, read Ferrara’s report “and thought it was really good.”

He said his only quibble would be regarding the federal corporate tax rate, which Ryan wants to take from 35 percent to 25 percent, putting it in line with the average of other industrialized nations. He said Ferrara should have noted “we have another roughly 5 percent above that after we add the state-level taxes. This indicates Ryan’s plan is not that radical. It moves us closer to the international average corporate rate but keeps us above the average.”

Ferrara notes in his report that Ryan proposes tax reform to consolidate the current six individual income tax rates, ranging up to 35 percent, into just two rates of 10 percent and 25 percent.

Obama, by contrast, “proposes to increase federal taxes by nearly $2 trillion over the next ten years above the CBO baseline. The budget projects that under Obama’s tax policies federal income tax revenues will double by 2020, federal corporate tax revenues will double by 2017, and federal payroll taxes will double by 2022.”

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INTERNET INFO

Chicago TIFs Create Only Half of the Jobs Promised

By Colin Briskman

Barely half the jobs promised by tax increment financing projects that have consumed billions of taxpayer dollars in Chicago have been created, according to an analysis by the watchdog group Illinois PIRG (Public Interest Research Group).

The report comes one year after Mayor Rahm Emanuel’s Tax Increment Financing (TIF) Reform Panel released recommendations for fixing the economic development program and underscores the need to implement reform to protect taxpayers.

Every year approximately $500 million of local property tax revenue flows to Chicago’s TIF districts. That money is largely shielded from public scrutiny, giving citizens little chance to hold local officials accountable for how it is handled.

Illinois PIRG’s report, “Jobs and TIF: An Analysis of Job Creation and Tax Increment Financing,” analyzes the records of 21 TIF-funded projects from the past decade with the biggest numbers of promised jobs. Each project examined was promised to create at least 200 jobs. The report checked to see whether the city is making sure developers are living up to their promises.

Poor Documentation, or None
The findings show that among projects that promised to create the most jobs, there are unacceptably low levels of tracking and enforcement.

Between 2000 and 2010, the City of Chicago spent more than $380 million to create 32,396 jobs through Tax Increment Financing projects, but only 16,948 of those jobs were accounted for; 15 of 21 projects with jobs covenants did not report meeting their jobs goals on an annual basis; and six of those projects, on which the city spent more than $129 million, have no record of periodic monitoring or job creation.

“Given that the purpose of TIF is to use taxpayer dollars to create jobs and stimulate economic growth, it’s unacceptable that the city isn’t holding developers accountable for achieving these goals,” said Hailey Witt, field director for Illinois PIRG. “Taxpayers deserve to know if they’re getting what they paid for.”

TIF Panel Recommendations
Illinois PIRG recommends Emanuel implement his reform panel’s recommendations, which would create a standard set of metrics to regularly track the progress of TIF projects and review performance.

“Mayor Emanuel showed us a year ago that he is committed to TIF reform by creating this panel, and their proposed reforms would move the city in the right direction. But it’s not enough to have these ideas on paper. The City Council should step up and pass an ordinance that the Task Force recommendations must be put in place,” said Witt.

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Oil and Gas Exploration Buoy Colorado Budget

By Sunana Batra

Legislative economists are expecting a little more revenue for the Colorado state budget than they had projected in June, but they’re tempering their expectations because of concerns about global economic and political uncertainties.

Gov. John Hickenlooper’s (D) budget chief attributed some of the bump in revenue to surging oil and gas exploration in the state.

Operating revenue for the current budget year that started in July rose 3.1 percent, or $239 million, over what had been projected in the last quarter. As a result, the legislature should be able to maintain a balanced budget, fund its statutory 4 percent reserve, and transfer $717 million to the State Education Fund, a dedicated account that is used to supplement the school funding that comes from the state’s general fund.

“With these new forecasts, we will be able to allocate hundreds of millions of additional dollars for future spending in Colorado’s schools,” state Rep. Robert Ramirez (R-Westminster), a member of the House Education Committee, said in a statement.

Henry Sobanet, director of the governor’s Office of State Planning and Budgeting, told the Joint Budget Committee Colorado’s economy shows some encouraging signs.

“We have some unique things going on in Colorado that we believe are generating general fund revenue growth,” Sobanet said. “Two things are dominating what’s happening ... substantial capital gains being realized, and dramatic recovery in oil and gas extraction and activity in Colorado.”

He noted Colorado is experiencing a remarkable spike in oil and gas extraction, trailing only North Dakota. Sobanet also told the committee that in the 2013–14 budget, “We believe we’ll be able to accommodate K-12 in a way the state hasn’t done in recent years.”

Still, he suggested legislators be careful not to expect these trends to continue. He advised them to be careful about setting future spending rates based on what he considers to be one-time-only revenue increases.

“The slight increase in revenues is not an invitation to increase spending—our economy is still facing great uncertainty,” said state Sen. Kent Lambert (R-Colorado Springs) in a statement. “We must ensure that Colorado’s government doesn’t outgrow its revenues. Our nation as a whole must choose a path of fiscal responsibility or risk slipping into another recession.”

State Sen. Pat Steadman (D-Denver) also weighed in. “I believe we can still protect the services Coloradans value while crafting a budget that is balanced and responsible,” he said. “This fiscal year we will focus on supporting small businesses, fostering job creation, and continuing to move Colorado forward.”

Sunana Batra (sunanabatra@gmail.com) writes for the Colorado News Agency. Used with permission of ColoradoNewsAgency.com.
Trillion-Dollar Farm Bill Would Drive Up Milk Prices

By Doug Kellogg

To many Americans the term “Dairy Market Stabilization Program” (DMSP) may sound like just another obscure effort launched from Washington that will have little impact on everyday lives.

However, a growing chorus of opposition from both sides of the political aisle is charging this scheme, buried in the gargantuan farm bill Congress could consider in its post-election “lame duck” session, would do serious harm to consumers, taxpayers, and the economy.

Supporters call DMSP a “reform” because it would replace part of the dairy-policy web of direct payments with a new approach that aims to reduce milk production and provide for government purchases of dairy products.

Opponents say this amounts to federal manipulation of supply and demand for a key commodity. The outcomes could be dire, especially on prices of milk, cheese, yogurt, and other dairy-based goods. Prices likely would rise, and with families struggling, critics believe DMSP would hammer them on basic necessities at the worst possible time.

Higher Prices Expected

Previous U.S. price and supply management policies have included taxing dairy farmers and even paying them to slaughter part of their herds. Our neighbors in Canada imposed milk quotas that have resulted in predictable effects—lower production and higher prices.

DMSP’s proponents say their approach, unlike Canada’s, doesn’t involve quotas and is voluntary. Yet the policy uses what opponents call a “carrot-and-stick” method that makes the best subsidized insurance option available to farmers who abide by the “supply management” rules.

And in the end, DMSP’s “success” would be defined by artificial cost-inflation. The Congressional Research Service seems to confirm this concern, stating in a recent report, “The concept behind the DMSP program is that payment reductions are intended to have one or both of two basic effects, either of which is expected to result in a higher future farm price for milk.” Interestingly, the pro-DMSP lobby has used the report to argue in its favor.

Consumer Groups Object

DMSP has even alarmed philosophically left-of-center advocacy groups like the Consumer Federation of America and Consumers Union. In a July 19 letter to the House Agriculture Committee they joined two other consumer organizations to voice “strong opposition” to “dairy programs that are designed to restrict milk production.”

“At a time when so many U.S. consumers are having difficulty making ends meet, the last thing they need are unnecessary, artificial increases in the price of staple food products,” the signatories contended.

Those voices are added to staunch opposition from fiscally conservative organizations like the Council for Citizens Against Government Waste (CCAGW) and National Taxpayers Union (NTU). In addition, groups ranging from the Competitive Enterprise Institute to FreedomWorks sent a joint letter this summer to House Speaker John Boehner opposing the entire Farm Bill.

‘More Top-Down Controls’

“This new supply management regime adds more layers and imposes more top-down controls over our milk supply and is, by definition, aimed at tamping down production and keeping prices high for consumers. It cannot by any measure be called real reform, since it just takes our current byzantine dairy policy to a whole new level of manipulation. Consumers lose, taxpayers lose,” said Leslie Paige, CCAGW’s vice president of policy and communications.

Paige explained because DMSP would affect some food prices, taxpayer-backed federal nutrition programs that help pay for groceries would also experience cost pressure.

NTU Executive Vice President Pete Sepp noted, “Downstream effects on the dairy industry would harm Americans in other ways. Smaller supplies and higher prices for the raw material many food manufacturers depend on—milk—could mean deferred expansion plans, reduced job opportunities, and foregone exports that could have contributed to the robust economic recovery our country needs.”

The Web site YourMilkMoney.org was recently launched by NTU and CCAGW to spearhead a campaign against the dairy provision specifically.

While the Farm Bill’s near-$1 trillion price tag consists mostly of food stamp-related spending, the legislation continues to be a lightning rod on farm subsidy issues. Consumers and taxpayers can expect the political storm to strengthen when lawmakers return to Washington after November 6.

Doug Kellogg (dkellogg@ntu.org) is communications manager for the National Taxpayers Union in Alexandria, Virginia.
R.I. Wage Hike Likely to Hurt Low-Wage Workers

By Ian Mason

Rhode Island Gov. Lincoln Chafee (I) has signed a bill raising his state’s minimum wage to $7.75 an hour, 50 cents an hour more than the federal wage floor. The law takes effect January 1.

State Rep. David Bennett (D-Warwick), the bill’s sponsor in the Rhode Island House, called the measure “absolutely necessary to help the people at the bottom of the pay scale, who are doing vital jobs for our economy and are struggling to make ends meet.”

The experience of similar minimum wage increases, however, suggests they might not be the best way to accomplish that goal. A large and long-standing body of economic research disputes the idea that higher minimum wages offer low-income workers and families any tangible benefits.

Does Not Reduce Poverty

One of the most comprehensive works on the subject, done by economists David Neumark and William Wascher in their 2008 book Minimum Wages, concludes increasing the minimum wage “neither helps low income families nor reduces poverty.” Studies often show higher minimum wages hurt the very people they are trying to help by making low-earning workers’ jobs uneconomical.

As Russell Sykes of the Empire Center for New York State Policy told Budget & Tax News, “There’s a strong research basis that workers are less likely to be hired if you price them out of their skill set.”

He said localized wage legislation, like the Rhode Island law, can be particularly harmful. If a higher wage floor applies only in a small geographic area, employers may be encouraged to hire elsewhere. In tiny Rhode Island’s case, nearby New Hampshire has no local minimum wage law.

Effective January of this year the City of San Francisco raised the minimum wage there to $10.24 an hour. Doug and Polly White of the management consulting firm Whitestone Partners noted for Budget & Tax News, “In San Francisco, the law forces you to pay a 41 percent premium over what your competitors, who manufacture widgets elsewhere, pay. You won’t be able to compete. You’re left with two choices: move your production facilities outside of San Francisco, or shut your doors.”

Jobs Lost, Hours Cut

In 2004, citizens of Santa Fe, New Mexico voted to approve a “living wage” ordinance, one of the first municipal laws of its kind in the country. Despite a then-booming New Mexico economy, when compared to data from elsewhere in the state where Santa Fe’s $8.50 an hour “living wage” does not apply, the law’s ill effects on employment become clear.

A 2005 study by the Employment Policy Institute showed the ordinance was responsible for a 3.2 percent increase in unemployment and 1.6 fewer hours of work a week for wage-earning employees.

That economic suffering was almost entirely distributed among the least-educated and -skilled workers in Santa Fe, according to study author Aaron S. Yelowitz.

Ian Mason (ninthoption@gmail.com) writes from Chicago.

Internet Info

Next Time, Kansas State Government Wants Receipts

By Gene Meyer

The next time Kansas spends more than a decade and almost a third of a billion dollars to fix up the state capitol, it will get receipts.

So say the state’s top elected purse-keepers, the State Finance Council, a nine-member panel that makes the state’s big financial decisions when the legislature is not in session.

The council has voted 7–1 to approve what it hopes will be the final financing package for a now $337 million restoration of the Kansas State Capitol, returning it to its grandeur of 1903, when workers finished the original building.

“T"riple Estimated Cost"

The cost is about three times more than legislators had estimated. The restoration work began in 2001.

Kansas Gov. Sam Brownback (R) and the top four Republican and Democratic members of the Kansas House and the Kansas Senate comprise the council.

Statehouse Architect Barry Greis and state Secretary of Administration Dennis Taylor wanted the council to approve a $17.4 million financing package for driveways, landscaping, and a visitors center—on the capitol’s north side—designed as a public front door. Features would include a lobby, elevators, security areas, audio and visual rooms, and a dining area, Greis said.

The center, a construction entrance during most of the decade-long project, remains a bare concrete shell, inaccessible to the public and partitioned by drywall, plywood, and other elements common to temporary construction.

“And that’s the way it will look if we don’t approve (the $17.4 million financing) today,” Greis told the panel.

‘A Serious Misunderstanding’

Two panel members, House Speaker Mike O’Neal (R-Hutchinson) and House Appropriations Committee Chairman Marc Rhoades (R-Newton), believed costs for the visitors center were included in the $320 million in state borrowing okayed by lawmakers to finance the work.

“It was my understanding that we were done with the bonding that was necessary to get us access and functionality at the Capitol,” O’Neal said. “This is a serious misunderstanding.”

Even so, Greis insisted, a more-than-1,780-page master contract between Kansas and JE Dunn Construction of Kansas City, the project’s chief contractor, clearly shows legislators had not approved the money to finish the center.

Few legislators have actually seen that contract. Only one copy is known to exist, tucked in a vault at the Kansas Department of Administration.

Greis and other department workers cite specific clauses and document those when legislators ask, but the sheer length and complexity of the capitol restoration probably overwhelmed that process, O’Neal said in an interview.

‘Details Get Lost’

“I think I’m the third speaker who has been involved in this (oversight of the restoration work),” O’Neal said. “Details get lost in a situation like that.”

Commission members resolved their immediate problems by requiring Greis and administration department officials to provide a detailed summary of work covered by the requested money.

“We understand cost overruns,” said Rhoades. Earlier legislatures added to the original plans an underground parking garage and ground floor office space. Restoration workers found unexpected problems behind old walls.

“But this confusion about what was covered before is concerning,” Rhoades said. “I believe the House would like to see more accountability.”

The package approved in the 7–1 vote is complex.

The state will borrow about $5.4 million by selling bonds to pay part of the cost. Contractors on the project will chip in $5 million more, money saved on other projects at the capitol over the past decade, said Greis, the state’s point man on the project.

Some $7 million more will come from Kansas’s go-to source for extra cash: the state highway fund.

Raid on Highway Funds

Since 2000, Kansas governors and legislators from both parties have tapped state highway funds for a total $1.5 billion to help ease other budgetary problems, the Kansas Department of Transportation calculates. The department’s budget is about $1.6 billion annually.

Brownback’s predecessor, former governor Mark Parkinson, a Democrat, used $189 million in KDOT money to stretch Kansas’s fiscal 2010 budget, and $195 million in 2011 to replace tax revenue lost in the Great Recession. Brownback transferred $205 million of KDOT money into the budget to pay Medicaid costs and sent $33 million to the Kansas Highway Patrol.

No road construction money will go toward the renovation, Brownback and KDOT officials insist. Instead, the money will come out of operations funds used to buy trucks, computers, fuel, office supplies, and anything else not directly related to construction or other core transportation commitments, said Steve Swartz, a KDOT spokesman.

‘Using as Slush Fund’

Kansas Senate Ways and Means Chairwoman Carolyn McGinn (R-Sedgwick) was the lone council member to vote against the financing package.

McGinn said she voted against the proposal, in part, because she thinks legislators are too quick to use highway money.

“It seems like we’re continuing to use this as a slush fund,” McGinn said.

McGinn said the full legislature, and not just the committee, should look at the issue.

“I truly believe this is the people’s building,” McGinn said. “I believe that the people who represent the people should be the ones that vote for that.”

Gene Meyer (gene.meyer@kansareporter.org) is editor of KansasWatchdog.org. Used with permission.
Chicago Mayor Promises No New Taxes or Fees

By John Skorburb

Chicago Mayor Rahm Emanuel has pledged to raise no new taxes or fees despite a budget deficit of nearly $300 million.

“There will be no property tax increase, there will be no sales tax increase, there will be no fuel tax increase,” Emanuel, a Democrat, told reporters at a recent news conference. “We’re eliminating the per-employee head tax …. We’re doing it ahead of schedule [2013], and there will be no amusement tax increase.”

Chicago recently has held spending within budget while some key revenue sources have topped projections, according to a recent report of the city’s Office of Budget and Management.

“Due to tight fiscal controls and an improving economy, the City’s expenditures are at or below expected levels, while key revenue sources have exceeded projections,” according to the report.

Big Deficit Remains

The city’s budget office pegs a deficit of $298 million.

“The administration’s aggressive fiscal management and ability to deliver services more efficiently has resulted in millions of dollars of savings for taxpayers,” said Budget Director Alexandra Holt. “We continue to examine every part of city government to determine how we can better serve residents at a more competitive price.”

There has been recent speculation that Emanuel might consider raising so-called “sin” taxes, especially on cigarettes. The mayor’s response, perhaps in a preview to his upcoming budget address: “If we do consider a cigarette tax,” he said, “it has to invest in children’s health.”

The city last increased its cigarette tax by 20 cents, to 68 cents a pack, in 2006. A $1-a-pack state hike that took effect in July already makes total taxes on a pack of cigarettes in Chicago $5.67. This is the second-highest per-pack tax in the nation, behind only New York City’s $5.85.

Cigarette Tax Revenues Falling

That tax hike alone will not be able to fill the budget shortfall. According to city financial records, the city expects to bring in $18.7 million in cigarette taxes this year, compared with $32.9 million just six years ago. City financial reports blame the drop-off on smoking bans, fewer smokers, and increases in prices and tax rates that discourage the purchase of cigarettes in the city.

“There seems to be a vicious cycle lately when government raises the tax on cigarettes. Taxes are so high now in some localities, that an increase in the rate actually causes tax revenues to decline,” said John Northdurft, director of government relations for The Heartland Institute, which publishes Budget & Tax News. “It’s not good for the government entity, and it is certainly not good for the consumer.”

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United States Drops Two Spots in World Competitiveness Ranking

By Steve Stanek

For the fourth consecutive year, the World Economic Forum has lowered the United States in its annual ranking of the world’s most competitive economies.

The ranking put the U.S. in 7th place, two positions lower than last year.

The report observes of the U.S., “Although many structural features continue to make its economy extremely productive, a number of escalating and unaddressed weaknesses have lowered the US ranking in recent years. US companies are highly sophisticated and innovative, supported by an excellent university system that collaborates admirably with the business sector in R&D. Combined with flexible labor markets and the scale opportunities afforded by the sheer size of its domestic economy—the largest in the world by far—these qualities continue to make the United States very competitive.

“The other hand, some weaknesses in particular areas have deepened since past assessments. The business community continues to be critical toward public and private institutions (41st). In particular, its trust in politicians is not strong (54th), perhaps not surprising in light of recent political disputes that threaten to push the country back into recession through automatic spending cuts. Business leaders also remain concerned about the government’s ability to maintain arms-length relationships with the private sector (59th), and consider that the government spends its resources relatively wastefully (76th).”

Switzerland, Singapore on Top

The annual survey ranks the economic competitiveness of 144 countries based on 12 key indicators. These include infrastructure, macroeconomic environment, labor market efficiency, and innovation.

Switzerland and Singapore retained their positions as the most competitive economies, coming in 1st and 2nd, respectively, followed by Finland, Sweden, the Netherlands, and Germany. Then comes the U.S. followed by the United Kingdom, Hong Kong, and Japan to round out the top 10.

“Switzerland retains its 1st place position again this year as a result of its continuing strong performance across the board,” the report states. “The country’s most notable strengths are related to innovation and labor market efficiency, where it tops the GCI rankings, as well as the sophistication of its business sector, which is ranked 2nd. Switzerland’s scientific research institutions are among the world’s best, and the strong collaboration between its academic and business sectors, combined with high company spending on R&D, ensures that much of this research is translated into marketable products and processes reinforced by strong intellectual property protection. This robust innovative capacity is captured by its high rate of patenting per capita, for which Switzerland ranks a remarkable 2nd worldwide. “

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INTERNET INFO

Rein in EPA

EPA Is a Rogue Agency
The Environmental Protection Agency (EPA) is the nation’s leading job killer, implementing and enforcing laws that impose impossible regulatory burdens on American businesses. EPA has perverted the Clean Air Act by declaring carbon dioxide a “pollutant,” despite the plain intent of the law’s authors to exclude such naturally occurring gases, and despite major flaws in the science used to claim carbon dioxide endangers human health.

The Solution
Congress must rein in EPA through deep cuts in the size, power, and cost of the agency. Congress can repeal EPA’s authority to regulate carbon dioxide in the name of “global warming,” and it can demand cost-benefit analysis be applied to all environmental regulations.

The Petition
The Citizen’s Petition to Rein in the Environmental Protection Agency calls out EPA’s unscientific and destructive campaign to frighten people over the threat of man-made global warming and demands “deep cuts in the size, power, and cost of the EPA.” You can sign it online at www.heartland.org, or print out copies and fax signed copies to 312/377-5000, or mail them to us at The Heartland Institute, One South Wacker Drive #2740, Chicago, IL 60606.

You Can Help! By working together, we can rein in the Environmental Protection Agency! We can protect the environment without sacrificing jobs or our essential freedoms. Please help us by signing the petition today.
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