The Bottom Line

Coalition Rejects MITFA
A broad coalition of conservative leaders and free-market proponents has called on Congress to reject S. 2609, the Marketplace and Internet Tax Fairness Act. Page 7

Feds’ War on Fun
The Consumer Product Safety Commission has claimed another victory in the war on toy magnets, although the risks presented by such stress-relievers and construction sets are negligible. Page 9

Midwest Comeback
Over the past few years, some states in the Midwest have experienced a tremendous economic revitalization, while others have continued to slump. What’s the big secret behind the successful states’ economic wins? Right-to-work laws. Page 15

When Helping Hurts
Medicaid expansion programs are often pitched as the most compassionate option to help the impoverished, but they often hurt the poor more than they help. There are far better options if legislators truly want to help the needy. Page 16

Big Wins for Economic Freedom in Midterms

By Jesse Hathaway
In November, voters rewarded reform-minded governors for their leadership on budget and tax issues. One such leading conservative governor, Nikki Haley, was soundly re-elected by South Carolina voters, defeating Democratic Party candidate Vincent Sheheen.

During her 2010 campaign, Haley vowed to refuse money from federal economic stimulus programs such as those offered to states through the American Reinvestment and Recovery Act (ARRA).

During her first campaign, Haley told reporters, “the problem that we’ve had right now is government is trying to be all things to all people.” She added, “this is not about what you spend, it’s about how you spend.”

U.S. Issues Rules to Stem Corporate Inversions

By Dotty Young
The U.S. Department of the Treasury in October announced new rules to limit tax benefits for U.S. companies merging with foreign corporations or moving their global headquarters overseas to avoid U.S. double taxation of profits.

Rational Decisions
Inversions are often considered by firms for the massive savings they can achieve on corporate taxes. Businesses face a 35 percent tax rate in the United States, while other countries, including Canada and Ireland, have significantly less-punitive tax rates and structures. Some economists say the inversions are simply rational economic decisions.

The United States is the only indus
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There you’ll find news, commentary, and analysis from Heartland staffers and scholars on the latest in policy, politics, and culture.
FBI Expands Spying Powers with New DNA Database

By Hannah Yang

Instead of broadcasting an omnipresent face via telescreen, a new government program may be bringing “Big Brother” to street corners and traffic intersections near you.

In September, the Federal Bureau of Investigation released a statement heralding the expansion of its Next Generation Identification System (NGIS) data network, including two new services, Rap Black and the Interstate Photo System (IPS).

A third new service, called Rapid DNA, will be integrated into NGIS in the future. Rapid DNA is a portable genetic testing program that will be plugged “into the FBI’s Combined DNA Index (CODIS) and Next Generation Identification (NGI) systems from the booking environment,” as explained by FBI’s official description of the system to vendors. Using Rapid DNA, law enforcement agents will be able to match genetic material collected with other identifying information from central databases, to quickly identify individuals encountered by law enforcement.

FBI’s press release explained Rap Black is intended to allow police to run background and criminal history checks on individuals holding positions of trust, such as public school teachers. IPS is a facial-recognition software tool available to match genetic material collected with other identifying information from central databases, to quickly identify individuals encountered by law enforcement.

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Mixed Results for Market Freedom in Midterms

Continued from page 1

In 2010, Haley defeated Sheheen by 4.5 percent, or 54,891 votes. After four years of conservative reforms such as flattening the state’s tax structure and fighting legislative proposals to enact fuel taxes, voters rewarded her with a resounding re-election margin.

Haley’s support among South Carolina voters nearly tripled, and she defeated Sheheen with a 14.6 percent margin of victory, or 180,479 votes.

After the Associated Press projected the nation’s first female governor’s re-election, based on only one minute of ballot-counting, Haley pointed to education and government ethics as two areas requiring reform.

“We’ve talked about ethics. We’ve talked about cleaning up Columbia. This is the year,” Haley told supporters during her victory speech.

She continued, “We’re going to make sure that we continue our focus on those children in South Carolina regardless of what rural county they’re from, regardless of what corner they were raised, to make sure every child can build a plane or a car or a tire or whatever they want to, because this is South Carolina and this is where we’re going to continue to take care of our children and educate them.”

NIKKI HALEY
GOVERNOR · SOUTH CAROLINA

“We’re going to ... make sure every child can build a plane or a car or a tire or whatever they want to, because this is South Carolina and this is where we’re going to continue to take care of our children and educate them.”

Fed Up in Illinois

Voters in Illinois, a state widely known for political corruption, also turned out in favor of pro-growth policies. Serving as a deadweight to the struggling state economy, corruption and graft have long been accepted as a cost of doing business in the Prairie State.

This summer, John Mikesell, a professor of public and environmental affairs at Indiana University, determined tax-payers in high-corruption states such as Illinois pay roughly $1,308 per year more in taxes than necessary, due to politically connected kickbacks and other corruption schemes.

In contrast to the policies of incumbent governor Pat Quinn, Republican candidate Bruce Rauner ran on a platform of reversing previously instituted personal and corporate tax increases, reforming the state’s public-sector collective bargaining laws to end compulsory membership for government employees, and moving the state’s public employee benefits and pension system to a defined-contribution system.

Responding to his proposed reforms, 50.8 percent of Illinois voters threw their support behind Rauner, and the venture capitalist defeated Quinn by a margin of 171,900 votes. Between the 2010 election and the 2014 race, 136,067 people who voted for Quinn did not endorse his re-election.

Big Jump Up

Since 2011, Thom Tillis, a former park commissioner from Cornelius, has led the North Carolina House of Representatives. In recent years, the Tarheel State’s economic fortunes have been steadily improving as economic reforms begin to pay dividends for the state.

According to the nonpartisan Tax Foundation’s comparative study of states’ business climates—corporate tax rates and tax structures, individual tax structures, and other factors—in one year, North Carolina achieved “the single largest rank jump in the history of the Index.” Reforms realized under Tillis’s tenure as speaker of the House include easing down and flattening corporate and individual tax rates and other pro-growth policies.

As was the case in many other races across the nation, voters voiced their approval of the policies Tillis and Gov. Pat McCrory had worked to enact by supporting Tillis at the ballot box. Tillis unseated incumbent U.S. Senator Kay Hagan with a 48,273 lead in the vote count.

Reaffirming Approval

In Wisconsin, another prominent conservative governor was re-elected. In 2010, Republican Scott Walker’s margin of victory was 124,638 votes, or 5.7 percent. After he spent four years enacting reforms such as making $800 million in cuts to income, withholding, and property taxes, more Wisconsinites voted to keep him in 2014 than voted for him in 2010.

Voters’ reaffirmation of Walker’s pro-growth reforms represented the third election in which his policies have been a key question placed before voters. In 2012, more than 1.3 million voters decided to keep Walker as governor in a recall election called as an attempt by his opponents to punish him for his conservative reforms of the state’s collective bargaining laws, Act 10.

The returns of the November 2014 election suggest conservative policies such as those enacted by Haley and Walker remain popular with the electorate. Their respective states chose to return them, and legislators like them, to office, while rejecting those who stood for big-government-as-usual, such as Quinn.

Jesse Hathaway (jhathaway@heartland.org) is managing editor of Budget & Tax News.
Poll Finds Increasing Skepticism towards Regulation

By D. Brady Nelson

A growing number of Americans believe government’s interference in their lives has grown too large, according to national polling company Gallup’s latest governance survey.

Surveying randomly selected individuals from across the nation, researchers found 49 percent believe government is too active in their lives, while only 22 percent say government should play a larger role in everyday life.

Growing Sentiment

Over the past 12 years, Gallup polls have found a steady increase in the number of people feeling the squeeze of government regulations. Excluding a two-year “rally effect” attributed by researchers to pro-government sentiments sparked by the 2001 terrorist attacks, more and more Americans say the government has intruded into too many aspects of their lives.

The share of survey respondents who say government enacts the “right amount” of or “too little” regulation has trended downward.

In 2005, 40 percent of Americans were comfortable with the scope of government interference in their lives, and 23 percent thought government should intervene more. In this year’s survey, just 27 percent said government’s current level of interference is appropriate, and 22 percent wanted government to seize more power.

“Americans are correct to be concerned about government regulation,” said Mark Thornton, a senior fellow at the Ludwig von Mises Institute. “It only kills jobs and raises costs and prices to consumers.”

Political Polarization

The survey also confirmed a significant divide between Republicans and Democrats, with 76 percent of the former saying there is too much regulation, compared with only 22 percent of the latter.

Gallup’s analysis of its polling data suggests the overall increase of regulatory skepticism has been driven by a shift in Republicans’ views, as Democratic Party members’ support of government regulation has been largely consistent over the 13 years of surveys.

In the years during which Republican President George W. Bush held office, the majority of Republican Party members did not say government interference was a problem.

After President Barack Obama took office, a supermajority of Republican Party members quickly began to adopt a negative opinion of Big Government. Smaller-government sentiment in the Republican Party peaked in 2011, when 84 percent of Republicans said government had too much power.

Discussing the results, Gallup Editor in Chief Frank Newport wrote, “a number of Americans view the federal government negatively, and it’s likely that for many in this group, their negative perceptions of government regulation of business at least partially reflect their doubts that government’s getting more involved in such endeavors would produce positive outcomes.”

C. Wayne Crews, vice president for policy at the Competitive Enterprise Institute, noted “free markets and ‘laissez-faire’ do not mean businesses get to run wild. The opposite is true. They are disciplined by their suppliers, their business customers, consumers, financial markets, the media, and rivals.”

From September 4 through September 7, Gallup researchers polled 1,017 randomly selected Americans aged 18 and older, calling both landline and cellular telephones.

D. Brady Nelson (darren.nelson@mac.com) is an economist, writer, and speaker from Brisbane, Australia.

IN OTHER WORDS . . .

“Gallup has been tracking attitudes toward government regulation of business annually since 2001. The low point in the perception that there was too much regulation came in 2002, the year after the 9/11 terrorist attacks. This reflected a ‘rally effect,’ in which Americans became more positive about all aspects of government, including record-high job approval ratings of the president and Congress. In fact, the only times that a higher percentage of Americans said there was too little rather than too much government regulation of business were in February and June 2002, the first two times Gallup asked this question after 9/11.”

— Frank Newport, writing for Gallup, September 15, 2014

SMART ENERGY

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**Study Grades Nation’s Governors on Fiscal Policy**

By Paula Bolyard

The Cato Institute’s recently released Fiscal Policy Report Card on America’s Governors highlights the wide range of economic policies adopted by the states, grading the nation’s 29 Republican and 21 Democratic governors on their states’ tax and spending policies.

The annual study, conducted by Chris Edwards, Cato’s director of tax policy studies, and budget analyst Nicole Kaeding, found although most state legislatures are having little trouble balancing their checkbooks in the short run, long-term problems such as unfunded public-sector pension liabilities and the current Medicaid expansion fade may soon place major stresses on state budgets.

Leading this year’s class of governors, Pat McCrory (R) of North Carolina, Kansas’s Sam Brownback (R), Paul LePage (R) of Maine, and Mike Pence (R) of Indiana all earned “A” grades. On the other end of the scale, receiving “F” grades, were all Democrats: Jerry Brown of California, Mark Dayton of Minnesota, John Hickenlooper of Colorado, John Kitzhaber of Oregon, Jack Markell of Delaware, Jay Inslee of Washington, Deval Patrick of Massachusetts, and Pat Quinn of Illinois.

**Bucking Trends**

Good grades are not always predictable from party affiliation. Three Democrats—Earl Ray Tomblin of West Virginia, Andrew Cuomo of New York, and Lincoln Chafee of Rhode Island—performed above average on fiscal reform, whereas Republican governors Rick Snyder of Michigan, John Kasich of Ohio, and Rick Scott of Florida received poor marks.

On average, the authors note, “Republican governors are more fiscally conservative ... than Democratic governors.” Their findings suggest Democratic and Republican governors disagree more “on revenue variables than spending variables.”

Among Republicans whose names have been mentioned as potential 2016 presidential candidates, Pence received the best mark, earning an “A.” Texas Gov. Rick Perry, Wisconsin’s Scott Walker, Louisiana’s Bobby Jindal, and New Jersey’s Chris Christie all received “B+.”

**Lonely at the Bottom**

Kasich occupies a lonely position at the bottom of the potential GOP presidential candidate pack, with a “D.” Receiving a grade more commonly found among Democratic governors, the 2016 hopeful’s score was dragged down by his championing of a 13.6 percent increase in the state’s spending and a 3 percent increase in public-sector employment. Other fiscally irresponsible Kasich initiatives noted in the report include his efforts to hike several kinds of taxes on businesses and consumers.

By following the lead of the top-scoring governors, the report concludes, state policymakers can boost their respective economies by enacting policies proven to work elsewhere in the nation.

Paula Bolyard (paula.bolyard@gmail.com) writes from Doylestown, Ohio.

**Small Business Administration Slows Local Economies, Report Shows**

By Jesse Hathaway

Instead of delivering an economic boost, the work of the U.S. Small Business Administration hurts local and regional economies, a new study has found.

The stated purpose of SBA, created in 1953 by President Dwight Eisenhower, is to “aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.”

Over the past 60 years, the agency’s budget has swelled to $810 million, only $111.6 million of which is used for business loans. Businesses participating in SBA’s programs also receive preferential regulatory and tax exemptions, further distorting the market.

**Suppresses Economic Growth**

The study, published by the National Bureau of Economic Research (NBER), a nonprofit organization devoted to academic study of the economy, found no evidence SBA sparks economic growth. NBER researchers found SBA lending correlates with negative income growth and negative economic growth in areas with SBA-subsidized businesses.

The study found a 10 percent increase in SBA loans in an area correlates with a 1.7 percent decline in the rate of income growth in that area. SBA’s attempts to prop up small businesses indirectly dampen economic activity in the area where the loans are made by misallocating loan capital that could have supported more efficient and innovative businesses, the authors conclude.

**Crowding the Market**

Another way SBA harms local economies is by offering generous subsidies only through taxpayer-funded loans, thereby crowding private-sector lenders out of the market. The agency also inflicts “splash damage” upon counties adjacent to areas receiving SBA assistance, as “lower incomes in the given county lead to decreased demands for goods sold in the neighbors.”

In conducting the study, Donald J. Lacombe and Andrew Young of West Virginia University and Matthew Higgins and Briana C. Sell of the Georgia Institute of Technology’s Scheller College of Business used a “spatial econometric framework” sampling data from 3,035 United States counties over the past 29 years.

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

**Internet Info**


Free-Market Coalition Opposes Internet Sales Tax

By Paula Bolyard

A broad coalition of conservative leaders and free-market proponents has signed “An Open Letter to the United States Congress: Oppose the Marketplace and Internet Tax Fairness Act,” voicing opposition to S. 2609, the Marketplace and Internet Tax Fairness Act.

The leaders of 17 organizations, representing millions of citizens, called the legislation “confused,” saying it combines a common-sense extension of the national ban on state efforts to tax Internet access with “highly unpopular and misguided legislation to grant Internet access with, ‘highly unpopular and misguided legislation to grant states cross-border tax authority for businesses located outside their jurisdiction.”

Dueling Bills

Joseph Bast, president of The Heartland Institute, which publishes Budget & Tax News, and other signatories of the letter expressed support for making permanent the ban on state efforts to tax the Internet, stating provisions in the bill would dismantle proper limits on state tax collection authority while causing serious damage to electronic and interstate commerce.

In July the U.S. House of Representatives voted to enact a ban on Internet taxation by amending the Internet Tax Freedom Act, which expired November 1. In response, a bipartisan group of senators led by Sen. Mike Enzi (R-WY) attached a revision of a 2013 online sales tax measure, the Internet Tax Fairness Act, to an alternative 10-year extension of the Internet Tax Freedom Act, setting up a potential showdown between the House and Senate regarding the legislation in the lame duck Congress.

Opponents of the Marketplace Fairness Act say it would eliminate the “physical presence standard” currently shielding consumers from tax collectors in other states. That standard currently protects small businesses from having to deal with a dizzying maze of state and local tax laws.

Changing Meaning of Nexus

Under existing federal law, states cannot force businesses to collect sales taxes from customers in states where they do not have a “nexus,” a physical presence such as a warehouse, office, or distribution center. As a result, most online retailers do not charge sales tax for purchases made by out-of-state customers.

Most states leave it up to customers to report their online purchases from other states, trusting them to pay the applicable use taxes. About a dozen states, trying to capture what they view as lost sales tax revenues, have expanded the definition of “nexus” to include affiliate programs, the so-called “Amazon tax.” The majority of online purchases remain either untaxed or taxed only if the consumer chooses to pay a use tax.

Entrenched brick-and-mortar companies argue this arrangement gives online retailers an unfair advantage. State governments complain about lost tax revenues from out-of-state purchases.

The Marketplace and Internet Tax Fairness Act would allow states to force businesses to charge a sales tax to out-of-state customers. Businesses with gross annual receipts of more than $1 million could be forced to account for nearly 10,000 different state and local tax jurisdictions and rules, depending on the location of each customer.

Red Tape Run Amok

The open letter to Congress opposing the proposed law states, “imposing this unworkable collection standard on remote retail sales, but not brick-and-mortar retail sales, would not only be unfair, it would result in enormous complexity while damaging interstate commerce.”

The letter goes on to note the proposed law would create substantial compliance burdens and the small-seller exception would do little to mitigate the damage.

The letter’s signatories concluded, “in seeking to address the failures of the ‘use tax’ systems employed by states, the ‘Marketplace Fairness Act’ ends up giving a federal blessing to a massive expansion in state tax collection authority, the dismantling of a vital taxpayer protection upon which virtually all tax systems are based, while harming a segment, that, despite its dramatic expansion, still only accounts for roughly $0.07 of every $1 in retail spending.”

S. 2609 remains under consideration by the United States Senate, where it has received two readings.

Paula Bolyard (paula.bolyard@gmail.com) writes from Doylestown, Ohio.

INTERNET INFO

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Prosecutors Seek Restart of Wisconsin ‘John Doe’ Probe in Appeals Court

By Larry Kaufmann

Wisconsin prosecutors have pursued an aggressive “John Doe” investigation into political advocacy for more than two years, seeking evidence of illegal political coordination between conservative organizations and politicians.

In the first public hearing associated with the investigation, the United States Court of Appeals for the Seventh Circuit in September heard oral arguments seeking the reversal of a District Court ruling handed down earlier this year. The appeals court judges are weighing one activist’s attempt to seek compensation from the prosecutors, who he argues are using their office to quash political speech with which they disagree.

In May, the U.S. District Court for the Eastern District of Wisconsin issued an injunction terminating the probe, but the prosecutors appealed the decision, requesting permission to resume the investigation and retain the documents they seized from the conservative organizations.

Conservative Groups Targeted

The “John Doe investigation,” so termed because the investigations are largely conducted behind metaphorical closed doors, shielded from public scrutiny, was launched shortly after Wisconsin Gov. Scott Walker won his June 2012 recall election.

Prosecutors from the Milwaukee County District Attorney’s office opened an investigation into the Wisconsin Club for Growth and 28 other conservative groups in the state, seeking to determine whether they illegally “coordinated” their political support with candidates for office.

In its brief for the Circuit Court appeal, O’Keefe’s legal team charged the John Doe investigation was retaliatory in nature, a form of revenge against O’Keefe and other activists for exercising their First Amendment rights in the heated political environment.

The brief further alleged the prosecutors’ actions had a chilling effect on political speech after the recall, as contributors may have feared donations to conservative groups could draw them into the investigation.

‘Coordination’ Claim Rejected

In May 2014, Judge Rudolph Randa of the U.S. District Court for the Eastern District of Wisconsin ruled in favor of O’Keefe, rejecting the prosecutors’ theory of “coordination” between conservative groups and candidates.

Beginning the appeals process requested by the defendants, a three-judge panel of the Seventh Circuit presided over the presentation of opening arguments. The first attorney to address the panel was Joseph Russell, counsel for special prosecutor Francis Schmitz.

Judge Frank Easterbrook vigorously questioned the secretive nature of John Doe investigations, appearing dumbfounded at Russell’s request to vacate Randa’s ruling, noting such actions are not the role of an Appeals Court.

Arguing before the panel, defense attorney Samuel Leib claimed the defendants have “absolute immunity” from damages in their roles as prosecutors. Easterbrook disagreed, noting the “bright line” for determining prosecutorial immunity occurs only after the determination of probable cause a crime has been committed.

Seeking Damages for Prosecution

In addition to requesting the case’s dismissal, the plaintiffs are seeking damages arising from the prosecutors’ John Doe investigation itself.

In response to Easterbrook’s rebuff, Leib said the plaintiffs had always assumed, from the beginning of the investigation, they have absolute immunity.

Later in the hearing, federalism issues became prominent during the questioning of the plaintiff’s counsel, Mark DeLaquil.

Chief Judge Diane Wood seemed particularly troubled by the fact the suit was filed in federal court rather than a Wisconsin state court. She said federal court review of the case could establish a “troubling precedent.”

Easterbrook, along with Judge William Bauer, wondered why the John Doe judge was unable to simply terminate the investigation, to which DeLaquil explained Wisconsin courts are unable to resolve all the associated issues.

‘The Process Is the Punishment’

Specifically, DeLaquil argued, the prosecutors’ confiscation and continued possession of sensitive information on conservative groups, including donor lists, potentially perpetuates the chilling effect on their First Amendment rights, which is a federal issue.

DeLaquil concluded his remarks by saying in this John Doe investigation “the process is the punishment.”

While the Circuit Court oral arguments were being made, Stuart Taylor, a respected Wisconsin legal journalist, published information received from an anonymous Milwaukee county prosecutor and “longtime Chisholm subordinate” claiming to have inside information about the genesis of the probe.

Taylor’s source says Colleen Chisholm, the district attorney’s wife, instigated the probe. Chisholm serves as a local organized-labor steward at a public school and was reportedly emotionally upset at Walker’s efforts to limit the collective bargaining power of public-sector unions in 2011.

Taylor’s source says Chisholm “frequently cried when discussing the topic of the union disbanding and the effect it would have on the people involved,” spurring the district attorney to begin the investigation of the political activists.

Larry Kaufmann (lkaufmann@earthlink.net) is a senior advisor at the Pacific Economics Group in Madison, Wisconsin.

INTERNET INFO

Federal Regulators’ War on Toys Strangles Businesses

By Matt Hurley

The Consumer Product Safety Commission has proposed new rules governing toy magnet sets, in response to rare incidents involving accidental ingestion of the products.

Almost exclusively marketed to adults, such products contain small magnetic objects intended for use in puzzles, sculpture building sets, and stress relievers.

First spurring the regulatory agency into action in 2012, 100 cases of children eating the magnets were reported to the CPSC between 2009 and 2011. According to data from the U.S. Census Bureau’s 2010 Profile of General Population and Housing Characteristics, there were 20,201,362 children five years old or less in the United States in that year.

Safe, Illegal, and Rare

The incidence of magnet ingestion is thus rare: Roughly five cases were reported per one million children age five or under.

National health care statistics suggest a child in the United States is 2,500 times more likely to visit a hospital to be treated for juvenile diabetes.

Of the 100 emergency room cases involving these toys, only a single fatality was reported during the three-year period.

In 2012, CPSC first targeted Buckyballs, a manufacturer of small but powerful magnetic toy balls, for elimination by regulation. Buckyballs, like other similar products, can be attached to one another, forming various shapes. Regulators argued it was not sufficient to warn individuals the magnets were not intended for consumption.

Regulatory Nudge

CPSC issued a statement suggesting ingestion of Buckyballs was a substantial product hazard, claiming the existence of a serious health risk. Although the product was never officially banned from sale in the United States, the commission’s actions convinced most retailers to stop selling the product.

The chief executive officer of Buckyballs, Craig Zucker, fought back by continuing to sell the magnets on the company’s website until the firm’s dissolution in 2013. CPSC proceeded with an individual prosecution of Zucker.

He eventually reached a settlement with CPSC, agreeing to a voluntary, expensive recall of the products. In his statement regarding the settlement, Zucker stated his “life has been consumed with defending both an overreaching lawsuit and the rights of small business owners. At this point, I have spent more on legal fees than I will on the settlement.”

Zucker explained, “the law does not support an individual being named in a case like this and I hope that this settlement will discourage the CPSC from wrongly pursuing individual officers and entrepreneurs again in the future.”

In addition to the disruption of domestic companies’ business activities, CPSC also closed down the sales activities of companies importing and selling these otherwise legal toys.

Last Gasp

Currently, a single vendor for these imported products remains, as CPSC has effectively killed off or discouraged the remainder of the market.

That company, Zen Magnets, has announced plans to continue defending its right to exist as a business, saying in an August 6 statement on its website the firm “will not settle for any sort of stop-sale of magnets that are perfectly safe when not misused.”

The company’s statement notes CPSC regulators are effectively claiming “the American population cannot be trusted to ever keep magnets out of the mouths of their children.”

The statement, written by company founder Shihan Qu, concludes by vowing to “continue this legal, awareness, and lobbying battle, until our very last drop of cash-flow blood.”

Qu’s statement promises the company will “combat the CPSC’s magnet prohibition until triumph, or until a glorious death of insolvency on the legal battlefield.

“At the very least, we’ll have one more holiday season of availability,” his letter ends.

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

IN OTHER WORDS . . .

“Warnings are an agreement between a customer and product. The consumer retains the benefit of using and choosing a product, in exchange for the responsibility of doing so. And by assuming people are unable to follow or understand instructions—despite the lack of confirmed injuries linked to Zen Magnets—the [Consumer Product Safety Commission] makes the judgment that the American population is not worthy or capable of deciding for themselves.”

— Shihan Qu, CEO, Zen Magnets, press release, August 4, 2014

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Treasury Dept. Issues Rules to Stem Corporate Inversions

Continued from page 1

trialized nation that taxes profits made from overseas sales, as soon as the money is brought home, or “repatriated.”

In August, U.S.-based Burger King announced it was merging with Tim Hortons Inc., a Canada-based casual restaurant chain. The firms have announced Burger King will keep its headquarters in Miami, and Tim Hortons will remain in Oakville, Ontario.

According to Burger King executive chairman Alex Behring, each division will be owned by a new, merged parent company, based in Canada. Canadian law allows Burger King to continue paying all national and state taxes on sales in the United States, while avoiding the additional tax on foreign sales.

Congressional Inaction
The new Treasury rules mean U.S. corporations no longer can lower their tax obligations by transferring stock between the U.S. division and the foreign division, using a foreign subsidiary’s earnings as a “loan” without paying taxes.

In his remarks about the new rule, Treasury Secretary Jacob L. Lew said, “For some companies considering deals, today’s actions will mean that inversions no longer make economic sense.”

Sen. Charles Schumer (D-NY) introduced a bill to restrict inversions in September. That measure has since been referred to the U.S. Senate Commission on Finance, but President Barack Obama expressed his full support for the Treasury Department’s regulatory action.

“We’ve recently seen a few large corporations announce plans to exploit this loophole, undercutting businesses that act responsibly and leaving the middle class to pay the bill, and I’m glad that Secretary Lew is exploring additional actions to help reverse this trend,” Obama said in a statement to reporters.

In an interview with The New York Times, Schumer said the president was constrained by certain limits on his and the Treasury’s legal authority.

Speaking for Sen. Orrin Hatch (R-Utah), the senior ranking Republican on the U.S. Senate Committee on Finance, Julia Lawless said in an August 2014 statement, “Burger King’s pursuit of an inversion only further underscores the arcane, anti-competitive nature of the U.S. tax code. Short of a tax overhaul that will make it easier for American companies to invest and create more jobs at home, Sen. Hatch has advocated for an interim proposal to address the disturbing recent uptick in inversions.”

While Hatch has not released details of his short-term proposal, a July 2014 letter to Lew suggested the short-term fixes may include preventing companies from changing “their corporate tax domicile without a change in a control itself.”

Dotty Young (dottyjyoung@yahoo.com) writes from Ashland, Ohio.

Louisiana Homeowners Wary of Government-Backed Spycam Network

“...it is important to have strong regulations against misuse or abuse of the systems and a redress program for the public to complain about any abuse.”

MELISSA NGO, CONSULTANT, PRIVACY AND INFORMATION POLICY

By Stacey Matthews

Law enforcement officials in suburban Louisiana are backing a new distributed surveillance program some say represents a creepy invasion of privacy by the government.

The Saint Bernard Parish Sheriff Office in Chalmette, Louisiana recently joined the Project NOLA system, which bills itself as a free, citizen-designed nonprofit camera system for area law enforcement and surveillance. Project NOLA boasts it “is the world’s most cost efficient city-wide crime camera system.”

First introduced in 2010, Project NOLA relies on residents, businesses, and private property owners “who may wish to participate by either hosting a Project NOLA [high definition] crime camera or allowing Project NOLA access to existing outdoor cameras.”

The program’s website states Project NOLA operates as a tax-exempt nonprofit organization organized and operated exclusively for charitable purposes. The organization’s stated purpose is to “help decrease crime by dramatically increasing the efficiency of the New Orleans Police Department.”

High-definition camera footage collected by participating citizens is relayed to local law enforcement, primarily for use in police investigations.

Although the idea of helping law enforcement officers investigate criminal activity appeals to some area residents, others have reservations about serving as a sentry for local police.

“They all for it if it’s all for the good, but things do get abused,” Meraux resident Christian Delosreyes told reporters from WVUE-TV 8.

Nothing to See Here

Parish Sheriff Jimmy Pohlmann has reassured those with privacy concerns their worries are unfounded.

“We’re not gonna sit there and monitor it unless something happens in that area or we have reports of suspicious activity going on in that area,” he told WAFB-TV 9 reporters. Explaining the surveillance grid, Pohlmann said, “all you have to do is, you can go to a map and click on an icon for that camera in that area and pull up that camera and it’ll give us a live feed from that area.”

In July 2014, Project NOLA celebrated the installation of a thousand...
High-Tax States Losing Power to Pro-Growth States

By Alexander Anton

Contrary to common claims that people prefer moving to high-tax states because of accompanying high levels of government services, data compiled by the Internal Revenue Service and from experts with the American Legislative Exchange Council show years of tax migration have resulted in a decrease in the political power of states with high tax rates.

ALEC’s Laffer State Economic Competitive Index, published this year, found more than 200,000 people left each Northeastern state between 2003 and 2012. Southeastern states experienced an average net population gain of about 300,000 people.

As the assignment of seats in the U.S. House of Representatives is tied to states’ population, the political influence of high-tax states contracted in favor of pro-growth states elsewhere. Northeastern and Midwestern states suffered the most. New York and Ohio each lost two seats, and eight other states’ delegations each lost one member.

Eleven states between Maine and Pennsylvania were represented by a total of 141 delegates in 1950 but are now represented by 85 members of Congress, a 40 percent decrease in proportional representation.

Power Shifts

Southern and Western states gained the most representation as a consequence of those states’ respective pro-growth policies. Texas’s influence in the House of Representatives grew with the addition of four delegates. Florida added two delegates, and Arizona, Georgia, Nevada, South Carolina, and Utah each gained an additional seat at the table.

IRS data help illuminate the reasons behind the shifting migratory patterns of taxpayers. Between 1995 and 2010, an analysis of 134 million taxpayer records shows $2 trillion in net adjusted gross income (AGI), along with the taxpayers themselves, flowed from states with high taxes to those with low taxes.

Those migratory patterns take a toll on states with high taxes. New York, for example, lost $58.6 billion in tax revenue during this period, along with talent, wealth, and business prowess that cannot be quantified.

Tale of Two States

Between 1990 and 2013, the number of jobs in the United States increased by 25.3 percent, but the increase in New York state was only 8.2 percent. Florida’s growth, by contrast, far outpaced the national average, as the state increased its job count by 42.6 percent.

New York has the nation’s second-highest state and local tax burden, a progressive system where individuals can be taxed as high as 12.7 percent and corporations are taxed at 17.16 percent. Florida, by contrast, has no individual income tax and a corporate tax of just 5.5 percent.

Individual taxpayers and businesses have flocked to the Sunshine State over the years.

After studying data compiled by IRS and the National Bureau of Economic Research (NBER), the New Jersey Department of the Treasury in 2011 concluded “there has been a small but consistent outflow of population and wealth from the Northeast region to the South since the 1980s,” noting, “outmigration associated with higher income taxes will likely diminish other streams of state revenue, such as corporate tax, sales tax, and property tax, as well as degrade a state’s overall economic performance, in turn associated with further outmigration.”

Alexander Anton (alexanderanton.heartland@gmail.com) writes from Palatine, Illinois.
Feds Caught ‘Catfishing’ with Woman’s Seized Pics

By Matt Naugle

Online dating sites and social media networks such as Facebook or Twitter are sometimes littered with fake profiles of attractive young women, tempting lonely Internet users. Representing themselves with photographs of someone else, such confidence artists trick unwary Internet users into divulging personal or even financial information.

This kind of scam, nicknamed “catfishing” after the user name employed by a notorious scammer employing this method in 2010, has even become the focus of a popular reality-television show on MTV.

According to claims in a New York woman’s civil lawsuit against the U.S. Department of Justice, federal law enforcement agents used her images and life story to effectively steal her identity, crossing the line from cops to catfishers.

Feds Used Personal Info

New York resident Sondra Arquiette was arrested and convicted on charges of possessing illegal drugs in 2010. After an initial sentence of life in prison, her punishment was reduced to five years of probation once prosecutors determined she had not been directly involved in a drug ring operated by her boyfriend, Jermaine Bradford.

Agents of the U.S. Drug Enforcement Administration (DEA) confiscated her cellphone as evidence and allegedly set up a Facebook account impersonating her, using private photographs stored on the phone to populate the account. Allegedly, law enforcement agents used the ersatz Arquiette persona to pursue their investigation of other members of Bradford’s alleged drug ring, contacting suspects and pumping them for information.

INTERNET INFO


After she discovered the bogus Facebook account, allegedly maintained by DEA Special Agent Timothy Sinnigen, Arquiette filed a legal complaint claiming DEA’s impersonation violated her right to privacy and placed her in danger.

Arquiette’s complaint claims Sinnigen’s masquerade was with “dangerous individuals he was investigating,” who would have been under the impression they were really dealing with her.

The government’s response claims law enforcement agents reserve the right to impersonate citizens without their consent or knowledge.

“The government’s response claims law enforcement agents reserve the right to impersonate citizens without their consent or knowledge.”

The government’s response claims law enforcement agents reserve the right to impersonate citizens without their consent or knowledge. DEA argues Arquiette “implicitly consented” to the theft of her online identity “by granting access to the information stored in her cell phone and by consenting to the use of that information to aid in an ongoing criminal investigation.”

‘Corrosive of Social Trust’

Legal scholars and privacy advocates took issue with the government’s argument, insisting a serious breach of civil liberties occurred if Arquiette’s allegations are true.

“This is the logic of civil asset forfeiture applied to identity—not the lawless seizure of a car or cash, or even just intimate photographs, but a citizen’s entire public persona,” said Julian Sanchez, a senior fellow of the Cato Institute.

“In an isolated case, that may just be a harm to the individual who loses control of her privacy and reputation,” he said. “More worrying to me, though, is that if this were to become common practice, it could be utterly corrosive of social trust, which is a harm much more difficult to measure or remedy.”

Sanchez says such hamfisted tactics may impede the efforts of other law enforcement agencies in the future.

“Exploiting intimate bonds like that creates a general atmosphere of suspicion and distrust that is toxic and chilling, even to those who aren’t actually being informed on,” he said.

Arquiette’s lawsuit is currently under the supervision of the court’s mandatory mediation program, overseen by a neutral observer on whom both parties have agreed. If DEA is unwilling to settle with Arquiette, a tentative court date has been scheduled for October 1, 2015.

Matt Naugle (mattnaugle@gmail.com) writes from Washington, DC.
National Football League Tackles Taxpayers with Carve-outs, Subsidies

By Dotty Young

The National Football League (NFL) receives more than $10 billion in revenue but is considered to be a nonprofit group exempt from federal taxation. Some critics are crying “foul.”

Section 501 of the United States Internal Revenue Code exempts “business leagues, chambers of commerce, real-estate boards, boards of trade, or professional football leagues” from taxation on net earnings, as they are “not organized for profit.”

While the NFL’s 32 individual clubs pay taxes on revenue from tickets, sale of television rights, and jersey sales, the league itself is exempted from any responsibility to pay millions of dollars in what would otherwise be tax revenue to the national government.

Jeremy Spector, the NFL’s hired tax counsel and partner with Covington & Burling LLP, thinks the nonprofit status is appropriate under current law. “The league office acts as a trade association for the NFL clubs,” Spector told reporters. “It establishes rules and standard practices for its members, develops programs to help them run their operations more efficiently and profitably, and promotes the business in the broader community. Trade associations are nonprofit organizations. They don’t engage in any business activity. As a result, they are exempt from being taxed, under section 501(c) (6) of the federal tax code.”

According to documentation filed with IRS, the NFL’s liabilities actually exceed its income, by more than $300 million.

The majority of the liabilities, more than $800 million, were “secured mortgages and notes to third parties.” These were loans the NFL has given to football clubs around the country for stadium financing, called the G4 program.

The conditions of the loan require team owners to seek public subsidization before turning to the NFL’s private money.

“Taxpayers subsidize the NFL and contribute to its immense market power. According to the National Conference of State [Legislatures], 29 of the 32 NFL stadiums in the U.S. were built with taxpayer funds,” said David Goodman, who serves on the board of directors for the Sports Fans Coalition, a consumer advocacy group focusing on policy issues affecting sports fans. “Ideally, leagues could choose whether or not to accept the public subsidy with strings attached, or forego the public gift.”

IN OTHER WORDS . . .

“Public funding of NFL stadiums never pays off for the taxpayers, according to Neil deMause, author of the book Field of Schemes and editor of a website of the same name.

“If there’s one thing that economists can agree on—and they don’t agree on much—it’s that any local benefits from public spending on sports stadiums is a slim fraction of what their boosters claim,” said Mr. deMause, a leading critic of public subsidies for sports stadiums.

“Without having crunched the specific numbers, I’d say Santa Clara should consider itself lucky if it comes close to recouping that $114 million—but then, Santa Clara should already consider itself lucky for only being on the hook for that amount, given that most stadium deals take a far bigger public cut.

“Indianapolis, for example, contributed $620 million toward the $720 million price tag of the Colts’ Lucas Oil Stadium—the equivalent of $1,866 per household in the Indiana capital.”


Begging for Building

Saving money through securing status as a nonprofit organization is not the only way the NFL has been receiving government tax benefits.

Every year, approximately $500 million in public dollars go towards building new stadiums. Fierce bidding wars erupt as cities compete for franchises, enticing teams with tax breaks, lower-cost government building contracts, and funding for stadium construction and maintenance collected from hospitality taxes on rental cars, hotels, and flights.

According to Pacific Standard magazine, in 2010 the average public cost for a football stadium was $241 million.

Supporters of sports team subsidies often claim public financing of privately owned stadiums will lead to increased economic revenue, but numerous economic studies have failed to find data to support that claim.

In a 2001 study, University of Maryland-Baltimore County associate professors Dennis Coates and Brad R. Humphries reviewed economic data from 37 metropolitan areas across the nation, finding public financing of professional sports facilities had “no measurable impact on the growth rate of real per-capita income.”

Coates and Humphries found such taxpayer-financed deals “[reduce] the level of real per-capita income in metropolitan areas” by causing public money that would otherwise be spent on core government functions to be diverted to off-loading private owners’ capital improvements onto taxpayers.

Coates and Humphries wrote, “the fundamental issue is that a stadium is a public investment in real capital. As such, the rules for sensible public investment apply to stadium finance as much as they apply to public provision of highways, schools, and airports.

“Specifically, the key is comparing the return on the investment in the stadium with the return on the same dollar investment in any alternative public use, including tax reduction,” the researchers concluded. “Efficient use of public resources requires that any given funds go into the uses that provide the highest return.”

Dotty Young (dottyjyoung@yahoo.com) writes from Ashland, Ohio.
Reforms, Reports Lift States’ Public Pension Outlooks

By Donna Rook

New Hampshire, Ohio, and Tennessee significantly improved their public pension funding in fiscal year 2013, as measured by Truth in Accounting metrics.

It’s important to determine how and why these improvements occurred. Knowing whether states contributed more money to their pension funds, adjusted benefits to decrease their liabilities, or achieved the improvements by some more arcane means will help lawmakers determine how best to fix their pension systems.

In Ohio, the underlying answer is quite simple. The state passed a law changing future benefit and contribution structures. Ohio’s pension liabilities decreased from $11.51 billion in 2012 to $8.94 billion at the end of 2013.

Those liabilities are now below the 50-state average of $11.7 billion. Between 2009 and 2012 Ohio’s pension liabilities grew from $5.75 billion—below the 50-state average—to $11.51 billion, above the 50-state average.

The other two states’ stories are more complicated, however.

Digging for Answers

Truth in Accounting analyzes each individual retirement plan in every state, a total of 518 plans. When a state is one of several employers participating in the plan—a “multi-employer” plan—TIA calculates only the state’s share of the liabilities.

In both New Hampshire and Tennessee, new information surfaced regarding the multi-employer pension plans, requiring recalculation of the states’ liabilities.

Those states recently reported information that had not been reported in the past, and that information showed earlier estimates of the value of liabilities were incorrect—the “anomalies” had obscured obligation reductions and debt payments, as teasing out the public share of a multi-employer plan is a complicated process.

The new information showed liabilities were being reduced in New Hampshire and debt was being paid off in Tennessee, as opposed to their earlier calculations of increasing debt.

Setting an Example

The successes realized by Ohio and other states have clear lessons for lawmakers in states that still have pension problems.

States should modernize their reporting so citizens can easily understand their state’s pension conditions without needing professional accountants to dig through footnotes and external actuarial reports or requesting additional data from state fiscal officers.

Worthwhile improvements would include prominently reporting on the state’s “balance sheet” its share of the multi-employer pension and retirees’ health plans’ unfunded liability. Other cosmetic reforms many believe would enable real change include the disclosure of historical and present state contributions to every retirement plan and including in the plans’ actuarial report, or Comprehensive Annual Financial Report, the government’s share of the Unfunded Actuarially Accrued Liabilities of all pension and retirees’ health plans.

Only when citizens and elected officials have truthful, timely, and transparent information about their state finances can they develop and assess alternatives to budget pressures between pension contributions and current services.

Donna Rook (drook@statedatalab.org) is president of StateDataLab.org, a project of Truth in Accounting.

New Database Quantifies Economic Impact of Federal Regulations

By Patrick A. McLaughlin, Ph.D.

Federal regulations have proliferated since the 1970s, when federal laws created several major regulatory agencies, including the Environmental Protection Agency (EPA), Department of Housing and Urban Development (HUD), and Department of Energy (DOE).

The total number of pages published in the annual Code of Federal Regulations—the set of books in which all federal regulations in effect in each year are published—has increased from 54,843 in 1970 to 175,496 in 2013.

Government, the Great Obstructer

Is it possible to understand fully how this accumulation of regulation affects our economy? For example, do regulations lower employment levels? Do workplace safety regulations lead to workplace safety? And why does the number of regulations keep rising?

A new publicly searchable database, RegData 2.0, was created to help answer those questions and more.

RegData 2.0, which I created with Professor Omar Al-Ubaydli, collects statistics about federal regulation. Those statistics include simple, broad measures of regulation, such as word counts, and nuanced and precise measures, such as restriction counts.

A unique feature of RegData 2.0 is that it offers a measure of how many restrictions the various regulators create. In 2012, for example, the top 10 regulators, those agencies that printed the most restrictions in 2012’s regulatory code, accounted for about 31 percent of all restrictions, with EPA’s Air Programs leading the way.

Economic Shackles

RegData 2.0 also measures the degree to which regulators target various sectors of the economy. To do this, we measure the number of times key words related to specific economic sectors are found in regulatory texts.

This allows us to create an industry-specific index of how much regulation targeting different sectors of the economy has grown over time. For example, regulation of the manufacturing sector has grown by 51 percent since 1997.

With hundreds of regulator-specific and thousands of industry-specific options from which to choose, RegData 2.0 is an effective tool to help inform many types of policy and economic debates, for activists and policymakers alike.

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INTERNET INFO

RegData 2.0: http://regdata.org/
A great natural experiment has been going on in labor markets in the United States over the past two-thirds of a century. Under the 1947 Taft-Hartley amendment to the National Labor Relations Act, state governments can elect to override a provision of federal law regarding employee collective bargaining.

Some 24 states have passed right-to-work laws, which allow workers free choice with respect to being represented by a labor union. The other 26 states permit union shop labor agreements that require employees to join the labor union representing workers where one exists, or at least pay dues to that union.

The right-to-work states have had substantially more economic success than the others that restrict individual rights with respect to employment. Perhaps the ultimate test of the quality of life of an area is whether people move into or away from it. Migration A net movement into a state is a strong indication people perceive life will be better there than in the area from which they came. Over time, there has been a dramatic movement from the states without right-to-work laws to ones where the laws exist.

The right-to-work states have had substantially more economic success than the others that restrict individual rights with respect to employment. Perhaps the ultimate test of the quality of life of an area is whether people move into or away from it.

Migration A net movement into a state is a strong indication people perceive life will be better there than in the area from which they came. Over time, there has been a dramatic movement from the states without right-to-work laws to ones where the laws exist.

Consider the first decade of this century: From 2000 to 2009, nearly five million native-born Americans moved from the non-right-to-work states into the 22 states with right-to-work laws. On average, more than 50 Americans moved to states with those perceived better employment opportunities every hour—night and day, seven days a week.

Not surprisingly, income growth has been dramatically higher in the right-to-work states. And, despite the increasing number of mouths to feed in those states, income per person also rose faster.

In some detailed analysis of several Midwestern states, my colleagues and I found per-capita income in those states would have been about $3,000 higher today had they adopted right-to-work laws in the late 1970s.

Small Laws, Great Effects Why does something seemingly as modest in importance as a single law have such significant effects? Employers gain enormous amount of labor market certainty with such legislation and believe they are protected from large increases in labor costs imposed by collective bargaining.

This, in turn, entices people to move in from other states, energizing the economy. Ironically, even union membership has risen more in recent years in right-to-work states than in states without those laws, since greater economic growth improves job opportunities for all.

For years, labor unions had enough political clout to prevent the spread of right-to-work laws, despite the economic advantages. In recent years, however, the political balance has turned in favor of this form of legislation, as witnessed by right-to-work measures recently adopted in Indiana and Michigan.

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How Reforming Medicaid Would Offer More Compassionate Options for the Poor

By Peter Ferrara

Financing for Medicaid, the national entitlement program providing health care for the poor, is shared with the states under a specific formula, with the federal government paying about 60 percent of the total costs. Under President Barack Obama, and especially thanks to Obamacare, spending on Medicaid is surging.

Total future costs to state governments are estimated to exceed the costs picked up by the federal government by 66 percent. The National Association of State Budget Officers reports states spend more taxpayer money on Medicaid than anything else, including public education.

As Medicaid consumes ever-larger portions of state budgets while delivering declining quality of care, the need for solid reforms is becoming apparent to policymakers across the nation.

Not Compassionate

Despite astronomical overall spending, Medicaid pays the doctors and hospitals actually providing the care only 60 cents for each dollar of health care costs they incur. As a result, the poor on Medicaid face grave difficulties in obtaining timely and essential health care, suffering worse health outcomes as a result.

Contrary to rhetoric from supporters, Medicaid is far from compassionate. Writing in The Wall Street Journal, Scott Gottlieb, M.D., a clinical assistant professor at the New York University School of Medicine, noted, “in some states, they’ve cut reimbursements to providers so low that beneficiaries can’t find doctors willing to accept Medicaid.”

Dozens of recent medical studies show that Medicaid patients suffer for it,” Gottlieb added. “In some cases, they’d do just as well without health insurance.”

This tragic problem can be solved by applying to Medicaid lessons from the successful 1996 reforms to the Aid to Families with Dependent Children (AFDC) program. As with the reforms to AFDC, each state would be granted broad discretion to redesign its Medicaid program to best serve the poor of its state.

Help Out, Not Handout

Thanks to the reform and replacement of the old welfare system, two-thirds of those formerly dependent on AFDC successfully escaped government dependence, resulting in a 25 percent increase in their financial well-being. With the program quantifiably helping people back onto their feet, taxpayer costs declined by 50 percent.

Under a similar reform plan, federal financing for Medicaid would be provided to the states in the form of a fixed, finite block grant. That financing would no longer vary in proportion to the state’s spending on the program, which currently amounts to paying each state to spend more on Medicaid.

If a state’s redesigned Medicaid program costs more than the value of the federal block grant, the state would bear those overages. Conversely, if a state’s new Medicaid program spent less than the allotted block grant money, the state would be allowed to pocket the difference, encouraging efficiency.

Similar block grant Medicaid reforms, proposed by House Budget Committee Chairman Paul Ryan (R-WI), were “scored” by the nonpartisan Congressional Budget Office as potentially saving nearly $1 trillion over 10 years.

More aggressive proposals include the State Health Flexibility Act, cosponsored by Reps. Todd Rokita (R-IN), Tim Huelskamp (R-KS), Paul Broun (R-GA), and Jim Jordan (R-OH). Due to the stricter limits on federal Medicaid funding in their proposal, CBO scores it as saving nearly $2 trillion over 10 years.

Consumers in Charge

Ideally, states would reform their Medicaid programs by providing vouchers to the impoverished, to help pay for the private health insurance of their choice in the marketplace. Among those choices would be health savings accounts (HSAs), which maximize consumers’ choice over their own health care and maximize consumers’ control, rather than the insurance company’s control, over the funds.

Such HSAs, backed up with catastrophic health insurance, provide powerful, proven-effective incentives for consumers to decide for themselves how to reduce costs to preserve maximum funds for the future.

These health insurance vouchers would free the poor from the “Medicaid ghetto,” enabling them to obtain the same quality of health care as middle-income families, because they would be able to buy the same health insurance in the same market. Market competition would force private insurers to pay doctors and hospitals sufficiently to ensure those covered by their insurance can obtain timely and effective health care.

The road to enacting Medicaid block grants must start with a repeal and replacement of Obamacare, because its Medicaid expansion and other provisions prevent the fiscally responsible, consumer-friendly policies that would release the poor from the Medicaid ghetto.

“The road to enacting Medicaid block grants must start with a repeal and replacement of Obamacare, because its Medicaid expansion and other provisions prevent the fiscally responsible, consumer-friendly policies that would release the poor from the Medicaid ghetto.”

By Peter Ferrara

Medicaid Costs Spiral Ever-Higher

 “[T]he Medicaid program will cost state governments ... $3.07 trillion. The National Association of State Budget Officers reported states already spend more on Medicaid than anything else, even K–12 education programs. The Centers for Medicare and Medicaid Services projected total federal and state costs for Medicaid alone will reach more than $853.6 billion by 2022. The program will be on track to cost more than a trillion dollars one year later.”

— Peter Ferrara, “Liberating the Poor from the Medicaid Ghetto,” Policy Brief, The Heartland Institute, October 6, 2014

INTERNET INFO

Ex-Im Bank Hurts Economy, Burdens Businesses

By Daniel J. Ikenson

The charter of the U.S. Export-Import Bank was set to expire on September 30, but it received a nine-month extension, courtesy of provisions inserted into the Continuing Appropriations Resolution.

It remains to be seen whether Ex-Im will finally be terminated on June 30, 2015. It may depend on greater awareness of the collateral damage the bank inflicts on unwitting victims.

Through loans to foreign buyers and loan guarantees to banks, Ex-Im provides financing for U.S. export sales that private lenders allegedly are unwilling to offer. According to its supporters, Ex-Im facilitates exports and creates jobs without costing taxpayers a dime; America wins, fist bump, end of story.

No Free Lunches

In reality, however, there are at least three sets of costs associated with every Ex-Im transaction, which are ignored or downplayed in the propaganda tales of Ex-Im’s greatness.

First is the “opportunity cost,” the loss of value-added activity that would have occurred had Ex-Im’s resources been deployed optimally or at least more efficiently in the private sector. Second is the “intra-industry cost,” the relative cost disadvantage imposed on domestic competitors, the unsubsidized U.S. firms in the same industry as a firm receiving Ex-Im subsidies. Third is the “downstream industry cost,” the relative cost disadvantage imposed on the U.S. competitors of the subsidized foreign customer.

Much like how an import tariff on sugar benefits some domestic beet and cane processors while harming confectioneries, beverage manufacturers, and other sugar-using producers, an Ex-Im-financed transaction benefits the exporter in question while harming U.S. firms that consume the export in question.

Downstream Costs

Using Export-Import Bank transaction data and input-output tables from the Bureau of Economic Analysis, the Cato Institute estimated the downstream costs for each of 236 U.S. manufacturing sub-industries. The “net benefits” of Ex-Im were then calculated as the aggregated export finance subsidies received by each industry minus the downstream costs imposed on each industry.

Of $50 billion in Ex-Im subsidies granted to non-aircraft U.S. manufacturers between 2007 and 2013, $40 billion shows up downstream as costs imposed on other businesses.

The average company, in four of every five manufacturing industries, incurs negative net benefits, meaning it is a “victim” of the Export-Import Bank. Fully 189 out of 236 manufacturing sub-industries—as defined by the six-digit specification of the North American Industry Classification System (NAICS), which encompasses 21 broad manufacturing industries—incurred costs in excess of benefits, an aggregate $2.8 billion per year.

The five broad industries incurring the greatest net Ex-Im-related costs are producers of electrical equipment, appliances, and components; furniture; food; non-metallic mineral products; and chemicals.

Manufacturing firms in every U.S. state can also be counted among Ex-Im’s victims. The most important or second-most important manufacturing industries in 47 states, in terms of added value to the economy, are among Ex-Im’s ten largest victims. Of those 47 states, Ex-Im does the greatest harm to Delaware, Maryland, Nebraska, New Jersey, North Carolina, Virginia, and West Virginia.

Favored Industries

Not all industries are Ex-Im victims. Forty-seven of 236 sub-industries, across 13 of 21 industry categories, can be counted as Ex-Im winners, realizing $4.2 billion in annual net benefits. On the whole, Ex-Im policies represent a net annual tax liability of $2.8 billion per year levied against 189 sub-industries, or $15 million per industry, and a net wealth transfer of $4.2 billion per year to 47 specific sub-industries. One would be hard-pressed to find a better example of a policy that “picks winners and losers.”

Policymakers should be wary of claims of Ex-Im’s costless benefits. They should know the bank’s policies reward a few companies while hurting many more. Appreciating the hidden costs is essential to any informed judgments about the future of the Export-Import Bank.

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Talk of Mutual Fund Regulation Brings Storm Clouds

By Paul S. Atkins

Even with the stock market reaching all-time highs and many Americans smiling at the look of their 401(k) valuations, storm clouds are gathering in Washington and abroad that may mean higher costs for investors, lower returns, and less freedom to cash out when that rainy day comes.

If you are trying to save for retirement, college tuition, or a down payment, it is worth paying close attention to the unfolding debate over whether central planners in Washington should impose a virtual tax on mutual fund investors and interfere with their investments.

Mutual funds have become the preferred investment vehicle of a vast majority of the U.S. public. Investors pool their hard-earned money into funds, and the funds, in turn, hire professional money managers to buy securities with the investors’ money. Those investments—made by investors in the first place, and then by their funds—are almost entirely for cash. There is virtually no borrowing involved, by law with respect to mutual funds. Thus, the funds and their investors bear the losses but also reap the rewards.

Investors know this, and that is why they trust their money to a professional manager and why they like the ability to move their money around to different kinds of funds with different investment strategies.

Enter Dodd-Frank

Banks are different altogether. Savers are creditors, not owners, of a bank, and they have a government guarantee on their deposits, upon which they earn a very small rate of interest. Banks, in turn, borrow large amounts based on their savers’ deposits and their shareholders’ capital.

Unlike mutual funds, they “leverage” this money by borrowing.

Banks are a welter of assets and liabilities, complex products and maturity mixes, all deeply and fully woven into our financial system. A bank’s failure could send shocks—small ones, usually—through part of our financial system.

In 2010, Congress enacted the 2,300-page Dodd-Frank Act. It was sold as a just-add-water solution to the 2008–09 financial crisis and as a safeguard against future meltdowns. One goal was to decrease leverage and systemic risk in the financial system, because Congress believed leverage was a major cause of the crisis. The statute requires regulators to take severe steps against banks to lessen systemic risk, mainly by requiring banks to raise more capital and lower their leverage.

To oversee this process, Dodd-Frank created the Financial Stability Oversight Council (FSOC), comprised of the heads of the financial services regulatory agencies. The council claims very broad power to designate certain activities, such as asset management, or companies and products as systematically important, subjecting them to Federal Reserve bank-style regulation, including leverage and capital requirements.

The council is doing just that—first with banks, then insurance companies and now, potentially, mutual funds. President Barack Obama’s independent insurance expert on the council issued a blistering dissent when it designated Prudential, the nation’s second-largest life insurer, as subject to this sort of regulation. It was, he asserted, unwise, unneeded, and harmful to insurance companies and their policyholders.

Not a Threat

Mutual funds, already heavily regulated, have shown they are no threat to the financial system, even during the past financial crisis. While hundreds of banks failed, sending reverberations throughout the financial system, mutual funds go out of business all the time with no systemic noise because they do not “fail”; investors hold their equity stake and simply ride their investment up or down.

What should investors fear from this designation process?

First, the Federal Reserve may impose capital requirements on your fund, meaning 8 to 12 percent of your investment would not be put to work, earning a rate similar to a bank account.

Investors might not be able to sell when and how they want. They might be asked to “take one for the team” in turbulent financial times, due to the restriction of sales of certain securities.

The Federal Reserve may also decide to create disincentives to selling fund investments by imposing fees for doing so, in effect saddling investors with a loss if they did precisely what any prudent investor or fund manager would do.

Even worse, mutual fund shareholders might have to pay into a bailout fund, in case a too-big-to-fail bank collapses. Dodd-Frank authorizes the taxing of FSOC-designated companies to pay into a TARP-style fund.

Capital markets are risk markets. Investors’ risks are not the same as banking risks, and they hardly pose a threat to the “financial stability of the United States.” Capital markets should not be subject to central planning by the Fed.

Invested capital has long fueled the extraordinary growth of U.S. entrepreneurial ventures and corporations. It is that record of vibrancy and resiliency that policymakers in Washington should seek to preserve, above all else.

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