Cook County Governments Could Go Broke Without Reforms, New Report Warns

By Steve Stanek

Property taxes since 2000 have risen twice as fast as consumer prices in Cook County, Illinois, with the steepest increases in suburban Chicago, according to a Heartland Institute analysis released in March.

With 5.2 million residents, Cook County includes the City of Chicago and is the second-most populous county in the nation. Huge tax increases or municipal bankruptcies are likely unless major reforms are made in how local governments operate, said John Nothdurft, report author and director of

Cook, p. 3

Lower Rates, Higher Taxes

President Barack Obama has announced a proposal to lower the corporate tax rate from 35 percent to 28 percent, but would end dozens of tax deductions. Result: Businesses would end up with higher tax bills.

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Bargaining Reforms Help

Wisconsin school districts have realized significant savings either through the implementation of collective bargaining changes or the threat of them, according to a new study.

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Higher Wage, Fewer Jobs

New York legislators are pushing for a 17 percent increase in the state’s minimum wage and then indexing it to inflation. Business groups warn this would reduce employment for those at the bottom of the jobs ladder.

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St. Louis Stadium Snag

Pro football’s St. Louis Rams have rejected a proposal for a $124 million renovation of the Edward Jones Dome, with approximately $60 million coming from taxpayers. The rejection fuels speculation the Rams may be maneuvering to leave St. Louis.

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Detroit Teeters at Edge of Bankruptcy

By Cheryl K. Chumley

Detroit spends millions of dollars more each month than it receives in revenues and faces a challenge to continue providing the most basic of government services—police, fire, trash collection, even street lighting.

The city has narrowly averted a state takeover. The city council voted 5–4 April 4 to accept a consent agreement with state officials. The agreement puts the city’s finances under stricter state control without the appointment of an emergency manager to oversee day-to-day operations.

The state will appoint a financial officer and a nine-member advisory board to work with city officials for better

Detroit, p. 6
The Heartland Institute is organizing its seventh International Conference on Climate Change – a gathering of scientists and economists from around the world to share their research and shed light on what is really happening to the Earth’s climate, and what to do about it.

Don’t miss this important conference! Details are available at heartland.org and climateconference.heartland.org.

“Skeptics dispute climate worries”
NEW YORK TIMES

“The tide of the debate—at least politically—has turned in their favor.”
U.S. NEWS & WORLD REPORT

“In the words of Gandhi, ‘First they ignore you, then they mock you, then they fight you, then you win.’”
CANADA FREE PRESS

“The Heartland Institute, a Chicago-based think tank devoted to ‘promoting free-market solutions,’ has been holding these confabs since 2008, sometimes twice a year. And the strategy appears to be working.”
THE NATION

REGISTRATION

* To register for the event, or for information about the program, speakers, co-sponsors, and more, contact Nikki Comerford at ncomerford@heartland.org. For media inquiries and credentials, contact Jim Lakely at jlakely@heartland.org.

SPEAKERS

* If you are interested in participating in the International Conference on Climate Change as a speaker or panel moderator, please contact James M. Taylor at jtaylor@heartland.org.

INFORMATION

* Visit climateconference.heartland.org for information and videos presented at previous Heartland climate conferences.
Cook County Governments Could Go Broke Without Reforms, Report Says

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government relations for The Heartland Institute, which publishes Budget & Tax News.

“The average property owner pays 48 percent more in property taxes today than a decade ago, with some homeowners seeing triple-digit increases,” reported Nothdurft. “The property tax burden will skyrocket in the next decade, despite stagnant or declining home prices, because of growing public pension and benefit obligations.”

48 Percent vs. 22 Percent

The average 48 percent increase in Cook County property tax collections dwarfs the 22.5 percent increase in the Consumer Price Index for the Chicago-Gary-Kenosha Area, according to the U.S. Department of Labor Bureau of Labor Statistics.

According to Nothdurft’s analysis, from 2000 to 2010:

- Property taxes collected for all taxing districts in Cook County rose from $7.89 billion to $11.69 billion, an increase of 48 percent. This is twice the rate of inflation during that period.
- Suburban municipalities increased property taxes by 75 percent, taxing agencies within the City of Chicago by 44 percent, and the Metropolitan Water Reclamation District by 29 percent. Property taxes levied by Cook County government remained flat.
- School districts, which collect the largest portion of property taxes, increased property taxes by 58 percent. Twenty-seven school districts more than doubled their property taxes in the past decade.
- Property tax bills list taxes collected for between 12 and 20 local governments that receive property taxes each year, depending on where in the county the particular property is located. Cook County government itself accounts for only about 6 percent of the total amount collected.

‘Government Is Gorging’

“This data is a welcome addition to the transparency effort that’s so important in assessing government, and it shows a shocking amount of tax revenue that’s being squeezed out of everyday people during some of the toughest economic times in decades,” said Andy Shaw, president and CEO of the Better Government Association, who attended the press conference announcing the study.

“Government is gorging while people are struggling,” Shaw said.

He noted Chicago and Cook County government dominate news coverage in the area, leaving the more than 500 smaller governments that levy property taxes to ‘operate under the radar screen’ and get away with spending that many suburbanites might oppose if they knew what is happening.

Much of the spending is being driven by pension and health insurance costs for government workers and retirees. Tax increment finance districts, which divert property tax revenues to areas designated by local officials for development, are also adding hundreds of millions of dollars to local property tax bills.

‘Reforms Necessary Now’

Ted Dabrowski, vice president of policy for the Illinois Policy Institute, said, “While the focus is often on Chicago, this information shows that suburban Cook County taxpayers have been facing increasingly higher property taxes. Significant spending and pension reforms are necessary now to protect taxpayers from the burden of even higher taxes in the future."

Cook County Treasurer Maria Pappas said, “Taxpayers ask me why their tax bill has steadily increased, especially surrounding their school’s tax portion. They can see that the county’s portion of the property tax bill has not increased in over 17 years and that taxation begins

at the local level of government. Make no mistake, tax increases can be controlled if property owners understand the real cost to them of local government debt.”

Maria Pappas
Treasurer - Cook County

Pap p a s

and her staff helped The Heartland Institute collect public tax records based on Freedom of Information Act (FOIA) requests Heartland filed. Nothdurft said the conclusions and interpretations are solely the responsibility of The Heartland Institute.

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of Budget & Tax News.

INTERNET INFO

Voters in Wichita, Kansas have trounced a proposed $2.25 million tax rebate for a hotel development that had the support of the Wichita City Council and the Wichita Downtown Development Corporation.

Despite the urgings of city leaders, the tax rebate proposal lost on a 61 to 38 percent vote in the February 28 special election. Opposition came from groups including Americans for Prosperity and the newly formed citizen-activist organization Wichitans for Tax Fairness.

Wichita Downtown Development Corporation Chairman Tom Docking said, “I completely misread the mood of the voting public on this one.”

Admission ‘Gift’ for Rebate Opponents
Councilmember Jeff Longwell said of the results, “I wasn’t terribly surprised, especially after you look back at some of the statements during the campaign.”

He highlighted one big “mistake” the developers, led by Paul Coury, made: They stated they would build with or without the rebate.

Americans for Prosperity’s Susan Estes called that announcement from the developers a “gift.” She said it showed voters the developers didn’t need the extra money and local jobs were not at risk.

The planned $22.5 million downtown Ambassador Hotel was to be awarded nine government incentives totaling approximately $15 million. The tax rebate itself was worth approximately $2.25 million over 15 years.

‘When Is Enough Enough?’
Sedgwick County Commissioner Richard Ranzau pointed to citizens’ outrage over the amount of government versus developer cash. “These guys had hardly any of their own money involved,” he said. “It was just so excessive. I think that was another mistake that they’re making. ... Even for people who in general support incentives, when is enough enough?”

Estes led much of the opposition’s voter outreach and said among the people she thought likely to be receptive to her message were members of the “World War II generation” who had avoided personal debt and been financially responsible.

County Commissioner Karl Peterjohn noted that although most of the approximately 40 precincts in his district voted against the rebate, two of his wealthier precincts voted for it. Estes said this was a pattern throughout the contest.

“The higher the income area, the more likely they were to believe that an expert could predict” the economic results of the incentives, Estes said. While wealthier voters were still suspicious of federal economic planning, they believed their municipal politicians could do a better job.

Fairness, Honesty at Issue
Many rebate opponents depicted the plan as an unfair advantage for one hotel. As AFP activist John Todd put it, “That’s not a level playing field.”

Wichita’s hotel guest tax is 6 percent of each room rental, and the proceeds usually go to Wichita’s general tourism fund. The defeated measure would have rebated the Ambassador Hotel 75 percent of the tax.

Docking said the tax rebate “was portrayed in a lot of circles in a way that was not accurate. ... There were actual statements that this was money that would have otherwise gone to police and fire protection.” Ranzau said he knows of no one on the opposition side who made that claim.

However, the rebate may not have been the focus of voters’ anger.

“The guest tax rebate was probably one of the least offensive of all the measures city council passed” to support the developer, said Bob Weeks, chairman of Wichitans for Tax Fairness. He said it was defeated because it was the only incentive that voters were given the chance to reject.

Development ‘Mania’
“Financial incentives are important to the revitalization of downtown, because they have a proven history of effectiveness,” a spokesman for Mayor Carl Brewer wrote in an email to Budget & Tax News. “Wichita will continue to use existing incentives.”

But Kansas University Professor Art Hall, whose research Bob Weeks often cites, called the Wichita government’s emphasis on downtown development a “mania.” As for the plethora of incentive and subsidy programs Wichita offers, “We should just get rid of all of it.”

Reflecting on the defeat of the rebate, Docking said, “The anti-development, anti-tax populace out there are numerous and they’re well organized.”

Weeks objected to this characterization. “We’re not anti-development,” he said. “I am a capitalist. ... Anti-tax, yes, we’re very much that. But ‘organized’ I don’t think applies to us at all. We beat it back this one little time.”

Mike Reid (mikereid@mises.com) writes from Manitoba, Canada.
By Brien Farley

Nebraska legislators have passed a bill to ensure flavored malt beverages are taxed as beer rather than at the far higher rate for distilled spirits. The bill is awaiting the governor’s signature.

Forty-seven states and the federal government define flavored malt beverages (FMBs)—sweetened alcoholic malt beverages—as beer. In Nebraska, however, a Prohibition-era law strictly distinguishes beer from distilled spirits.

With the advent of hybrid products such as FMBs, the Nebraska Liquor Control Commission aligned the state’s policy with federal guidelines and classified them as beer, thus allowing Nebras-ka beer-only licensees to sell the product and for FMBs to be taxed at the same rate as beer—31 cents per gallon—as opposed to the $3.75 per gallon rate applied to spirits.

Response to Ruling

In March, the Nebraska Supreme Court struck down that decision when ruling on a suit brought by activists for preventing underage drinking. The court ruled the liquor commission had overstepped its authority in redefining state liquor law and stated the classification must be made by the legislature.

Anticipating the court’s decision, Nebraska state Sen. Russ Karpisek (Wilber) introduced a bill (LB 824) to amend the 1935 Nebraska Liquor Control Act to explicitly include flavored malt beverages within the act’s definition of beer. The bill passed the legislature with a 37–6 vote and was presented to Gov. Dave Heineman (R).

As law, the amended definition would provide much-needed consistency for consumers, retailers, and producers, according to supporters.

“There are a lot of retailers, pizza places, and gas stations in Nebraska that have beer-only licenses,” said Karpisek. “They wouldn’t be allowed to sell FMBs if they were defined as liquor.”

Could Lose Market

“We’ve heard from beer-only retailers telling us that if FMBs were taxed as spirits, they’d take them off their shelves,” said state Sen. Colby Coash (Lincoln). “Most would not get an extra liquor license. You’d lose the market.”

Coash said without the law consumers would bear the brunt of a higher tax. “You would be decreasing access to the product among legal-aged drinkers.”

Opponents argue the higher tax on FMBs, or “alcopops” as critics call them, would reduce underage drinking.

‘Alcopop’ Fears

“Alcopops come in colorful, attractive packaging. They are sweet and easy to drink and appealing to young people,” argued Nebraska Sen. John Harms (Scotts Bluff County) in a hearing to amend the bill. “The more expensive the product, the less teenagers will go after it.”

In response, Karpisek said evidence suggests underage drinkers prefer hard liquor and flavored vodkas that are already taxed as spirits.

“Singling out FMBs is not going to curtail underage drinking. FMBs will remain illegal for people under 21, and we haven’t seen any documented correlation between underage drinking and this product,” Karpisek said.

Brien Farley (brien.farley@gmail.com) writes from Genesee, Wisconsin.
Motown Breakdown: Detroit at Edge of Bankruptcy

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financial controls and budget policies, including better revenue forecasts and a three-year budget projection. A full state takeover is still possible if city officials break the terms of the agreement.

Detroit had been expected to run out of money by the end of April or early May. With the agreement, some debt will be restructured to reduce payments and improve cash flow.

State and city officials had spent months trying to agree to a financial stability plan, but on April 2 an Ingham County judge ordered the state’s financial review team not to meet or vote on any issues until an April 11 hearing. The order was lifted and they were able to consider the agreement, which had amendments agreed upon by Mayor Dave Bing (D), Detroit City Council members, and the state Treasurer’s office.

$200 Million Debt Load
By the end of this fiscal year, the city is projected to be approximately $50 million in deficit. Additionally, the city carries a debt load of $200 million from failures to balance prior budgets. Both Moody’s Investors Service and Fitch Ratings have downgraded Detroit’s credit scores.

The state government has stepped in to assist if necessary, but the ensuing pushback among state and city officials has left Detroit residents wondering when or if services will terminate.

“The state has been more than patient with the city to get its own financial act together,” said Michael LaFait, director of the Morey Fiscal Policy Initiative for the Mackinac Center for Public Policy in Midland, Michigan. “Now it’s time for ‘bold strokes.’”

Running Out of Money
In March 2011 Gov. Rick Snyder (R) signed into law the local Government and School District Financial Accountability Act, authorizing state officials to intervene when local governments face extreme financial distress. By November 2011 press reports had surfaced that Detroit was due to run out of money in April 2012.

State officials discussed installing an emergency manager with authority to lay off workers, reorganize departments, amend ordinances and budget allocations, sell city properties, and halt or delay labor deals. Detroit’s union employees condemned the plan, as did Bing.

Approximately half of all city tax dollars go toward employee benefits in this heavily union city.

“Let me make one thing perfectly clear. Bing told reporters. “I don’t want an emergency manager making decisions for my city.”

Last December the Michigan Department of Treasury launched a preliminary investigation to determine if further review of the city’s financial issues was warranted. A few weeks later the decision came back: more review.

State Treasury officials recommended the appointment of a task force. While the review progressed, and with the emergency manager idea still in the air, the state provided the city with a proposal to curb costs.

That plan, released in March 2012, recommended a nine-person board to oversee and restructure the city government, with authority to approve all financial decisions. City council members and the mayor still would hold office, but their powers would be confined to setting policy.

City officials balked. The mayor’s March 20 counter-proposal established a seven-person board to assist city officials with operations and services and to recommend changes to the city’s budget. The mayor and council members would maintain all their executive powers as granted by the city charter.

“No Plan to Address Finances”
Meanwhile, the state Treasury Department panel finished its audit of the city’s finances.

“Oh on March 26, we sent a notice to the mayor that a severe financial emergency exists in Detroit and that we found no plan in place to address it,” said Terry Stanton, spokesman for Michigan’s Department of Treasury.

Some of the findings in the 15-page report: “For the year ending June 30, 2010, the human resources apprentice training program exceeded its budget by over $2.3 million, the insurance premium line item exceeded its budget by over $12 million, and the police operations line item exceeded its budget by $15.8 million.”

Yet the city did not amend the general budget, and “consequently, the general fund had line items that exceeded budgeted amounts, in the aggregate, by almost $58 million,” according to the report.

On March 29, the state offered a counter-proposal to the city’s that called for a nine-member board to advise and review on all fiscal matters, yet allowed the mayor and council members to retain their executive roles. That essentially is the agreement that averted a full state takeover of the city.

To LaFait, the course of action is clear. The city, he said, needs to make “dramatic reductions in the size and scope and expense of government,” decrease debt, reduce or eliminate taxes, and improve core city services.

Cheryl K. Chumley writes from Northern Virginia.
Tax Freedom Day
Arrives 4 Days Later than Last Year

By Joseph Henchman

Tax Freedom Day 2012 arrived on April 17 this year, four days later than last year due to higher federal income and corporate tax collections.

That means Americans worked 107 days into the year, from January 1 to April 17, to earn enough money to pay this year’s combined 29.2 percent average federal, state, and local tax bill.

If the federal government raised taxes enough to close the budget deficit—an additional $1.014 trillion—Tax Freedom Day would arrive on May 14 instead of April 17. That’s an additional 27 days of government spending paid for by borrowing. This year’s federal budget deficit remains high, though it has declined slightly over the past two years.

As the economic recovery continues, the growth in individual incomes and corporate profits will increase tax revenues and push Tax Freedom Day later in the year. The latest-ever Tax Freedom Day was May 1, 2000—meaning Americans worked 33 days to pay their income and corporate tax collections, and in 1989, Tax Freedom Day arrived on April 22. That year, federal income tax revenues as a share of the economy were higher than they had been in nearly all years prior, when the top rate exceeded 90 percent.

The Reagan tax cut signed into law in 1981 lowered the top rate exceeded 90 percent. The 1950s was in the White House. However, government spending rose, leading to a large gap between revenue and spending. This year marks the fourth year in a row of the federal budget deficit exceeding $1 trillion.

The total tax burden borne by residents of different states varies considerably, not only due to differing state tax policies but also because of the steep progressivity of the federal tax system. This means higher-income states celebrated Tax Freedom Day later: Connecticut (May 5), New Jersey (May 1), and New York (May 1) residents face a significantly higher total federal tax burden than lower-income states.

Residents of Tennessee will bear the lowest average tax burden in 2012. Tax Freedom Day arrived for them on March 31. Also early are Louisiana (April 1), Mississippi (April 1), South Carolina (April 3), and South Dakota (April 4).

Joseph Henchman (jdh@taxfoundation.org) is vice president of the Tax Foundation in Washington, DC.

By the 1920s, when Justice Oliver Wendell Holmes described taxes as the price of civilized society, Tax Freedom Day was arriving in February.

The Great Depression and the Hoover/Roosevelt tax increases led not only to a later Tax Freedom Day but a shift in who was collecting. In 1932, Americans spent 10 days paying federal taxes and 46 days paying state and local taxes. By 1940, Americans worked 33 days to pay each. World War II brought increased federal spending and borrowing, with Tax Freedom Day arriving in April for the first time in 1943.

Rising State-Local Burdens

The federal tax burden has never returned to pre-war levels. The 1950s and ’60s brought a rise in state-local tax burdens and a boost in economic growth following the 1964 Kennedy/Johnson tax cut. Vietnam War-era tax increases and the “stagflation” of the 1970s pushed personal incomes into higher tax brackets, and by 1981, Tax Freedom Day arrived on April 24.

The Reagan tax cut signed into law that year ushered in an economic boom. Federal revenues grew but the economy grew even faster. Despite pressure on state and local taxes following taxpayer revolts such as the one that led to Proposition 13 in California, the strong economic growth led to increased tax collections, and in 1989, Tax Freedom Day arrived on April 22. That year, federal income tax revenues as a share of the economy were higher than they had been in nearly all years prior, when the top rate exceeded 90 percent.

A string of record-setting federal tax burdens followed, and the latest-ever Tax Freedom Day occurred on May 1, 2000. With federal revenue routinely exceeding even the government’s own forecasts, there was strong popular pressure for a major tax cut.

Big Decline in 2000s

The new president, George W. Bush, delivered on his tax-cut promises, which, combined with a recession in 2001, caused the tax burden to fall considerably. In 2003, Tax Freedom Day arrived on April 14, more than two weeks earlier than in 2000.

Since 2007, stimulus tax cuts and a weakening economy have pushed Tax Freedom Day earlier still. In 2009, Tax Freedom Day was on April 10, earlier than any time since Lyndon Johnson was in the White House. However, government spending rose, leading to a large gap between revenue and spending. This year marks the fourth year in a row of the federal budget deficit exceeding $1 trillion.

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Joseph Henchman (jdh@taxfoundation.org) is vice president of the Tax Foundation in Washington, DC.
Obama Wants Lower Tax Rates, Fewer Deductions, More Revenue

By Steve Stanek

U.S. businesses would have a lower tax rate but an overall higher tax bill under a proposal by President Barack Obama.

Obama proposes to lower the corporate tax rate from 35 percent to 28 percent while at the same time ending dozens of tax deductions. Businesses would end up paying tax on a larger amount of taxable income. Result: a higher aggregate business tax bill.

The president also proposes to force U.S. companies with overseas operations to pay a minimum tax on their overseas earnings. U.S. businesses with overseas operations currently pay tax only in the jurisdiction where the income is earned, if the money stays overseas.

The president would simplify and lower tax rates on small businesses but also take away some small business deductions.

Oil, Gas Hit Hard

Some businesses would pay more and others less, depending on what tax deductions they use and would lose. The oil and gas industry likely would pay substantially more, as many industry tax breaks would end. But “green” energy would be boosted.

“In order to make us more competitive and create jobs here at home, we must reform our corporate tax code,” Treasury Secretary Tim Geithner said in a statement. “The President's framework would boost growth and provide American companies with incentives to invest in the U.S. while simplifying and cutting taxes for our small businesses.”

The plan states, “The tax code currently subsidizes oil and gas production through tax expenditures that provide preferences for these industries over others. The Framework would repeal tax preferences available for fossil fuels.”

Retailers Not Buying

The retail industry pays one of the highest effective tax rates, as it has few tax deductions, and many owners of small stores pay their taxes using the individual rate, which tops out at 35 percent.

“While we applaud the president for recognizing the urgent need for reform and stepping forward with a corporate tax reform plan, today’s proposal falls short of the bold reforms that are sorely needed,” said Katherine Lugar, executive vice president for public affairs for the Retail Industry Leaders Association. “With 12.8 million unemployed Americans looking for work, comprehensive tax reform that spurs investment and job creation can’t come soon enough, but if it’s worth doing, it’s worth doing right.”

RILA especially disapproved of aspects of the proposal that “use the tax code to pick winners and losers.” While calling for ending many tax deductions, the president also calls for special breaks for U.S. manufacturers to take their corporate tax rate down to 25 percent.

Picks Winners, Losers

“Unfortunately,” said Lugar, “the president’s proposal preserves special preferences that give some industries advantages at the expense of others. Further, the administration’s plan effectively maintains the taxation of international income, a harmful policy that is increasingly unique to the United States.”

The National Retail Federation was more supportive, though the organization maintains more needs to be done.

“The president’s proposal is a significant step forward, and we hope the administration will work closely with those in Congress who have proposed going even further,” said NRF President and CEO Matthew Shay. “Tax reform is a once-in-a-generation opportunity and we need to get it right. Reform needs to address small businesses as well as corporations, and needs to be fair to all industries rather than favoring one over another.”

Liked on the Left

The Center for American Progress has supported much of the president’s agenda, including a minimum tax on overseas income earned by U.S. corporations.

“The White House has laid out a roadmap for corporate tax reform that is aimed exactly where it should be: on strengthening the U.S. economy for the benefit of the nation as a whole,” said Michael Ettlinger, CAP vice president for economic policy.

Ettlinger said the tax reform would strengthen middle-income households and improve the government’s long-term fiscal outlook, a reference to the estimated $250 billion of additional income over 10 years the government would take in.

“Our existing corporate tax code is a mess. It rewards companies for moving investments offshore, for taking on excessive debt, and for hiring armies of lawyers and accountants to game it,” Ettlinger said. “The White House is proposing a substantial improvement: a tax code that actually rewards companies for investing and hiring in the United States.

“While eliminating dozens of loopholes, the proposal reorients the incentives embedded in the tax code toward domestic investment, specifically on the investments in R&D, manufacturing, and new energy technologies that drive economic growth,” he said.

Seen as Anti-Competitive

The American Chemistry Council gave a decidedly different evaluation.

“The president has said he wants America to lead the world in manufacturing, and we strongly support that goal,” said Cal Dooley, ACC president and CEO. “Getting there will require a fair, simple tax system that allows U.S. companies to compete evenly abroad.

“Unfortunately, today’s proposal falls short. It creates a new structure in which tax credits are not valuable enough to maintain and grow domestic manufacturing. The new tax on foreign income would doubly tax U.S. companies that have become global leaders—a very anti-competitive proposal. Meanwhile, higher taxes on oil and natural gas companies could inhibit domestic energy production just as new supplies are helping U.S. manufacturers grow and create jobs.”

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of two Heartland publications, Budget & Tax News and FIRE Policy News.
By Cheryl K. Chumley

Baltimore Mayor Stephanie Rawlings-Blake has proposed raising the city’s 2 cent tax on beverage containers to 5 cents.

She said during a recent city council meeting the proposal is part of her Better Schools Initiative to build new schools.

“We have identified three new funding streams, including the bottle tax, that will begin to add ... million[s] annually to the school construction budget by July of next year,” Rawlings-Blake said during the meeting. “This is a big bump-up for our schools, and it’s real. … It’s a new tax, and it’s one we need to pass now to invest in our kids and our future.”

The so-called “bottle tax” would by itself raise $10 million for school construction, according to city estimates.

The proposal comes on the heels of a June 2010 measure that established the existing 2 cent tax on beverage containers. It exempts containers of milk, juice, and dairy products, along with larger soda containers such as two-liter bottles.

Lost Sales, Jobs
Not everyone is persuaded the tax hike is a good idea.

“First of all, the current 2 cent tax is a container tax—it’s a tax on containers, not just bottles. And it has cost the city sales; it has cost the city jobs,” said Ellen Valentino, executive vice president of the Maryland-Delaware-D.C. Beverage Association. “Moving forward to 5 cents will further cause the city to lose jobs, and push people out of the city to make purchases.”

The Maryland Taxpayers Association sees the bottle tax as emblematic of larger economic and political problems in the city and state.

“There’s nothing in Maryland they wouldn’t tax,” said Dee Hodges, president of the tax group. “That’s what happens when you have one political party so lopsidedly in control. They’re all Democrats—not one Republican in the city—and they all basically have lifetime jobs. That means they will raise taxes and just not think about it, because they know they’re going to be elected the next time.”

Opponents say the tax increase would hurt grocery store owners and retailers and raise costs to consumers. The American Beverage Association reports Arkansas, Washington, West Virginia and the City of Chicago all have varying rates of taxation on sales of bottled drinks.

Cheryl K. Chumley (ckchumley@gmail.com) writes from Northern Virginia.

An Issue for Winners

Under the FairTax, almost everyone is a Winner.

Opponents of the FairTax live in a make-believe world where they try to claim “it will never happen,” or that “it’s a political loser,” but in reality the FairTax is a Winner.

Candidates in the 2010 election who strongly supported the FairTax won 86% of their races. Even candidates who only gave the FairTax tepid support won 44% of their races. By contrast, similar candidates who didn’t support the FairTax won only 22% of their races.

Conservatives Win with the FairTax because it reduces the size, scope and power of government over the lives of the People, and prevents IRS intrusion into the lives of all Americans.

The poor are Winners with the FairTax because it helps break the poverty cycle and provides a path to independence and personal responsibility.

American businesses and workers are Winners with the FairTax because it untaxes business, increases competitiveness, and will return American jobs to American workers.

The Constitution is a Winner under the FairTax, because, as the Sixteenth Amendment is repealed, the original Vision of Our Founders is restored.

The FairTax
Once you understand it, You’ll demand it!!

Help Support the FairTax
Join our Five for FairTax Campaign at Fiveforfairtax.org
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Join other FairTax Supporters Fairtaxnation.com
Report Finds Big Benefits From

By M.D. Kittle

While there is no disputing the divisiveness and political bitterness Act 10 has created, the law that redefined collective bargaining in Wisconsin has made a dramatic difference for the state’s financially struggling school districts, according to a report released in March.

But school superintendents say they worry about the long-lasting emotional scars left by the contentious reform battle.

Wisconsin school districts have realized significant savings either through the implementation of collective bargaining changes or the threat of them, according to an analysis by the Michigan-based Education Action Group Foundation, known as EAG, a nonprofit research organization promoting school spending reform.

The pointed report, titled “The Bad Old Days of Collective Bargaining: Why Act 10 Was Necessary for Wisconsin Public Schools,” devotes plenty of its pages to applauding the collective bargaining reforms led by Republican Gov. Scott Walker, and it backs up the assertions with some telling numbers.

**Act of ‘War’**

Act 10 stripped collective bargaining for most unionized public employees in Wisconsin, limiting negotiations to wages only, and only up to the rate of inflation. It also requires teachers and other government workers to contribute 5.8 percent to their state pensions, and at least 12.6 percent of their health insurance premiums.

When Walker and Republican leadership rolled out the proposal in February 2011, they ignited a firestorm of controversy in an unprecedented political war.

Democrats said as much, insisting the governor was “declaring war” on unions.

**Packed with Protestors**

And Big Labor responded, organizing tens of thousands of people in protests that packed the Capitol and the square surrounding it, images captured for weeks on nightly newscasts and hourly on cable news networks.

Fourteen Democrat state senators fled the state to stave off a vote. It didn’t matter. The Republican majority eventually voted without them, passing the measure 18–1, with Dale Schultz (R-Richland Center) the only dissenting voice. The bill moved on to the Assembly, where Republicans hold a substantial majority.

Walker signed the measure into law, but Dane County Circuit Court Judge Maryann Sumi issued a permanent injunction, voiding Act 10, arguing Republican lawmakers violated the state’s open meetings laws by not giving enough public notice before the vote. The state supreme court, in a 4–3 decision, overturned the lower court’s decision, declaring the legislature was not bound by the open meetings laws.

Some eight months after the legislation took effect, the political battles continue, with the governor, Lt. Gov. Rebecca Kleefisch, and four Republican senators targets of recall.

**Substantial Savings**

But the benefits of Act 10 for school districts, according to EAG’s report, are clear.

“This (school) year many districts simply imposed the Act 10 standards for increased contributions toward health insurance and pension costs, saving millions of dollars in one bold stroke,” the report reads.

Other districts, the report notes, agreed to extend their unions’ collective bargaining agreements, but only under the condition of significant union concessions. EAG cites the Madison Metropolitan School District, which expects to save $15.5 million in Fiscal Year 2011–12 and $18.6 million in the coming school year due to union concessions.

District Superintendent Dan Nerad has said approximately three-quarters of the funding fill for a $20 million budget hole came from staff concessions—increased pension contributions and health insurance payments, among them.

“Under either scenario, hundreds of school districts saved millions, which helped them absorb the blow of reduced tax revenue,” according to the EAG report. “Those savings would not have occurred without Act 10.

“The bottom line is that Act 10 allows school boards to take control of their budgets without union interference and act in the best interest of their students,” the report found.

Labor organizations, like the Wisconsin Education Association Council, the state’s largest teachers union, have a different take on the law, fighting against what the group sees as a destructive force in Wisconsin public education.

WEAC spokeswoman Christine Brey did not return phone calls seeking comment.

WEAC President Mary Bell, following last year’s Senate vote, called the action “heart wrenching and unconscionable.”

“We’ve won the battle in the court of opinion—and we’ve exposed the truth behind Governor Walker and Legislative Republicans’ motives,” she said in a statement.

**Standing Firm**

But while Walker late last year expressed some regret for not doing a better job of communicating to the public the need for Act 10, the governor has stood firm on the importance of collective bargaining reforms to help local governments fill deep budget holes.

Wisconsin faced a $3.6 billion budget shortfall at one point, and Republican leadership filled the gap with some $800 million in cuts to education and a $77 million reduction in
Wisconsin’s Bargaining Rollback

“(Teachers) were only paying 6.5 percent of health insurance premiums. (Act 10) almost doubled employee contributions,” she said. “We benefited more than other districts that had higher employee contributions. We happened to be in the right place at the right time.”

The district did not have to cut any positions, other than two that had previously been marked for reduction.

Fond du Lac was ranked eighth of 10 districts in the state with the highest savings from Act 10. All told, those districts saved more than $85 million, according to conservative news service the MacIver Institute. Racine public schools realized $19.2 million in savings through Act 10, the most on the top 10, according to the study.

Budget Flexibility
It was the same story in Waukesha.

Todd Gray, superintendent of the Waukesha School District, said the district expects to save as much as $6 million this school year and another $1 million next year through a combination of Act 10 provisions and retirements.

Gray said the reforms have helped bring the budget in balance without forcing job cuts. Act 10’s biggest fiscal impact, he said, has been in the flexibility it affords—a much different scenario than when teachers unions rejected wage and benefits concessions in trying economic times.

In the EAG report, Gray voiced criticism about union motives in recent years, after they had fought for and won the rollback of the Qualified Economic Offer, a wage ceiling in place since the early 1990s.

Average Wisconsin teacher salaries increased from $37,897 in 1998 to $50,627 in 2011, according to the Wisconsin Information Network for Successful Schools, part of the Wisconsin Department of Public Instruction.

“They talk about the welfare of students, but I really question that,” Gray told EAG. “They used their power to take away the QEO and restructure the arbitration system in their favor. The only way districts could deal with that was a reduction in staff.”

End to Insurance Monopoly
Districts also are realizing savings through a change that ends what many saw as the WEA Trust’s monopoly over the school district health insurance market. WEA Trust, one of the state’s largest insurers, is an independent nonprofit, although created through WEAC.

Instead of being bound by collective bargaining demands that effectively tied school districts to WEA Trust insurance plans, which critics have long blasted for being less competitive, public school systems are now free to bid out their insurance contracts.

That has resulted in some significant savings, either through lower-cost providers or more competitive rates from WEA. The nonprofit reportedly had lost about a third of its schools business as of February, according to the Milwaukee Journal Sentinel.

The Hartland-Lakeside School District unilaterally switched its insurance carrier after WEAC’s regional union balked on a move to do so without a contract extension, district Superintendent Gary Schilling said in the EAG study. The switch and the imposition of the 5.8 percent contribution to the pension fund have saved the district about $900,000, Schilling said.

Hartland-Lakeside still needed to ask voters to approve a millage rate increase to cover a remaining shortfall, but Schilling said things could have been a lot worse.

“Without finance from Act 10, instead of the referendum being only a small increase, like 2 percent, we would have had to ask taxpayers for much more, which would be very hard to sell,” the superintendent told EAG.

Ongoing Fight
Gray said the contentious Act 10’s savings do come with a hefty cost.

“If we have teachers concerned and morale is low, that hurts us. If we have students that don’t want to go into teaching, that hurts us,” he said.

Schnorr said teachers have been vilified in the debate and fallout over Act 10, and that’s not fair. She said the teachers union negotiated for what they received over the years and now that many of those gains have been taken away, there’s been a lot of mean-spirited criticism of educators.

But the unions, teachers, public employees, all who fought against Act 10, are not going gently into that good night.

Historic recalls are in the offing, political payback for Act 10, Wisconsin watchers say. And the campaigns have been hostile on both sides of the argument.

Meanwhile, states like Idaho and Indiana have followed in the path of collective bargaining reform, getting there with much less resistance than seen in Wisconsin and Ohio, which saw its reform measure buried in a ballot question in November.

Gray said as an administrator he is in a much better position to manage his school system than he ever has, but the verdict on Act 10 still is out.

“This is going to take some time to play out,” he said. “All I can say is I’m doing my best to take care of our teachers and our staff, and I will do that regardless of Act 10.”

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No Joke: U.S. Has World’s Highest Corporate Tax Rate

By Steve Stanek

On April 1 the United States earned the dubious distinction of having the highest statutory corporate tax rate of any industrialized nation.

On April 1, Japan lowered its corporate tax rate, moving the United States to the top of the list with a federal government rate of 35 percent. Most states also apply their own corporate tax on top of the federal tax.

Since 2001, Japan had levied the highest combined corporate tax rate at 39.5 percent, slightly higher than the average 39.2 percent combined federal-state rate in the U.S. Japan’s new rate is 38.01 percent, which includes a 10 percent surtax that will expire after 2014.

‘Paid by Working Americans’

“I think too few people understand that a corporate income tax is ultimately paid by middle-class working Americans,” said Aparna Mathur, director, economic policy studies at the American Enterprise Institute and a former Federal Reserve senior economist.

“The way this happens is that when the U.S. raises its rate, capital flows out of the U.S. to competitor countries with lower corporate taxes,” she said. “The effect of this is fewer jobs for workers in the U.S. and lower wages for workers.”

With the United States having the highest rate in the industrialized world, “The U.S. will be even more uncompetitive relative to the rest of these countries. This is likely to have an adverse impact on the domestic labor force.”

Revenue Neutrality Mistake

Information Technology and Innovation Foundation President Rob Atkinson noted in a blog post at the ITIF Web site the Obama Administration and many in Congress have begun to consider corporate tax reform but insist on “revenue neutrality.”

“The problem with revenue neutrality is that it is likely to neutralize potential benefits of reform,” Atkinson wrote. “Simply lowering the statutory corporate rate, but then cutting deductions and credits to pay for it, will do nothing to address the fact that the U.S. also has a very high effective corporate tax rate relative to our competitors.”

50% Higher than OECD Average

Tax Foundation President Scott Hodge notes in a “Fiscal Fact” report the U.S. corporate rate is more than 50 percent higher than the simple average of the 33 other member nations in the Organisation of Economic Co-Operation and Development (OECD). “And,” writes Hodge, “our rate is roughly ten percentage points higher than the weighted average of OECD nations.”

Some small OECD nations have slashed their corporate tax rates, and the average of the larger Group of Seven (or G-7) nations also has been falling—especially driven by “dramatic rate cuts instituted by Canada and Great Britain,” Hodge notes.

“Taking the recent Canadian, British, and Japanese rate cuts into account, the weighted average of the G-7 nations is now below 32 percent—three percentage points lower than the federal U.S. rate alone and seven points below the combined U.S. rate,” Hodge wrote.

Steve Stanek (sstanek@heartland.org) is a research fellow at The Heartland Institute and managing editor of two Heartland publications, Budget & Tax News and FIRE Policy News.
By Jacob Huebert

Bloomington, Illinois is home to Illinois State University and a downtown nightlife scene that is often a mess.

It’s also home to city officials who have decided to block a woman who wants to help clean up the mess. She’s fighting back in a lawsuit aided by the Liberty Justice Center of the Illinois Policy Institute.

The woman is Julie Crowe, a Marine Corps veteran in her 50s who has worked as a driver on the privately operated “party buses” in the city, which pick up university students who are looking for a way to get back to their dorms after the bars let out. Drivers herd the students into the buses in numbers that far exceed what’s legal or safe. On board, young people typically find themselves in the middle of fights, other people’s sexual activity, or other unpleasantness.

If a passenger is lucky, the bus will drop everyone off somewhere close to where he or she lives. Otherwise, even after taking the bus, a partygoer may be in for a long stagger home.

In addition to having driven the party buses, Crowe also has worked for a “vehicle for hire” service driving students in smaller 15-passenger vans. As a van driver, she found young women in particular liked riding home in a calmer environment and liked having a woman driver they could talk to and who would take them directly to their doors to make sure they got home safely.

Seeing an opportunity, Crowe decided she would like to start her own business catering to these customers. Her would-be competitors and the city government, however, had other ideas.

Operators’ Opposition

As Crowe discovered, the Bloomington City Code doesn’t let just anyone start a vehicle-for-hire service. A person must apply with the city, and the city government must hold a hearing—and all existing vehicle service operators may attend the hearing to say whether they believe the city should approve the new business.

Their opinion in Crowe’s case could have surprised no one: The existing vehicle service operators didn’t think another competitor should be allowed.

The city manager then weighed the hearing testimony to decide whether licensing a new business would be “desirable and in the public interest”—two subjective criteria that can mean whatever the city manager wants them to mean.

One-Sentence Rejection

Crowe received the city manager’s answer in a one-sentence letter: “The City of Bloomington has determined that there is not a need to have an additional Vehicle for Hire Shuttle, there [sic] your request has been denied.”

So the van Crowe spent thousands of dollars customizing to serve her would-be customers has remained locked in her garage, serving no one. Meanwhile, the party-bus chaos continues.

That would be the end of the story, except the Liberty Justice Center, the new public-interest litigation center of the Illinois Policy Institute based in Chicago, happened to see a news blurb about Bloomington’s denial of Crowe’s application. We contacted her and have sued the city on her behalf.

We contend the city’s licensing scheme is both unjust and unconstitutional. A law giving a city bureaucrat the power to arbitrarily deny a license because he or she doesn’t find it “desirable” flagrantly violates the constitutional guarantee of due process of law. So do the city’s procedures, which don’t allow an applicant to cross-examine the people who testify against her or to offer rebuttal evidence.

IN OTHER WORDS . . .

“Clear evidence of inefficient transportation spending comes from a new Treasury study estimating that traffic gridlock costs motorists more than $100 billion a year in delays and wasted gas. In cities like Los Angeles, commuters waste the equivalent of two extra weeks every year in traffic jams. This congestion could be alleviated by building more highway lanes where they are most needed and using market-based pricing—such as tolls—for using roads during peak travel times.

“That makes too much sense for Washington. In a typical year only about 65 cents of every gas tax dollar is spent on roads and highways. The rest is intercepted by the public transit lobby and Congressional earmarkers. Then there are the union wages that pad the cost of all federal projects. The New York Times reported in 2010 that 8,074 Metropolitan Transportation Authority employees made $100,000 or more in 2009 even as the system loses money.”

— Wall Street Journal editorial, April 16, 2012

CODDLING CARTELS

Crowe’s story is far from unique. Across the country, city governments protect from competition politically privileged cartels in the taxi, limousine, and van-service industries. The costs to the economy are immeasurable, as governments stop new businesses and jobs from being created and force consumers to pay higher prices for inferior service.

We’re bringing this suit not only to allow Crowe to start her business but also to create a precedent that will help protect everyone’s right to earn a living. We want the courts to declare governments can’t run schemes like these to benefit a few people at everyone else’s expense. We want to restore Bloomington, the State of Illinois, and the nation to a place where people succeed or fail based on their ability to please consumers—not on their ability to please a bureaucrat.

Jacob Huebert (jhuebert@libertyjusticecenter.org) is associate counsel for the Liberty Justice Center, the public-interest litigation center of the Illinois Policy Institute.
New York Assembly Speaker Sheldon Silver (D-Manhattan) is leading a move to raise the state’s minimum wage from $7.25 to $8.50 and then index it to annual inflation.

“Increasing the minimum wage would benefit over 1 million working New Yorkers. We should be leading the way on this front and living up to our reputation as a state that takes care of our own,” wrote Silver in an open letter on the Assembly’s Web site. “To help make this a reality, the Assembly Majority is fighting to increase New York State’s minimum wage.”

Business groups in New York oppose the move, which would amount to a 17 percent increase in the minimum.

‘A Stealth Tax’

“The Business Council believes that the way to improve our state’s economy and the lives of all New Yorkers is to create more private-sector jobs. Raising the minimum wage would only hurt New York’s small businesses, farms, and not-for-profits that are struggling to make their current payrolls, and [would] reduce job opportunities in this difficult economy,” said Heather Briccetti, president and CEO of the Business Council of New York State, Inc.

New York Farm Bureau President Dean Norton said, “When the government imposes costs on a business that the market does not dictate, we typically call this a tax. The proposal to increase New York’s minimum wage is a stealth tax for our state’s farmers masquerading as a benefit for workers.”

He said the proposal would hurt the very people it aims to help, by artificially increasing payroll and forcing farmers to make tough decisions about the size of their workforce and the price of their products.

“At a time when we are working hard to create jobs and improve our business environment, this proposal seems particularly ill-timed and ill-considered,” Norton said.

‘Consumers Have to Pay More’

State Sen. Cathy Young (R-Olean) agrees with the business groups. Speaking recently at a local Chamber of Commerce-sponsored legislative breakfast, she said, “Anytime you raise [the] minimum wage, consumers have to pay more because businesses have to make that up. That’s the wrong direction to take.”

The Jamestown Post-Journal newspaper covered the event and reported Young said the proposed minimum wage increase would “drive business out of the state.”

William Dunkelberg, chief economist for the National Federation of Independent Business, said the increase would “relegate more youth to the street-corner economy, not just when it happens but forever, since the minimum wage sets the hurdle to be beaten every year from the time it is passed.

“This is not exactly a ‘pro-jobs’ policy for any state” Dunkelberg added, “and it has even worse long-term implications as those displaced by the higher minimum will not get the ‘on-the-job’ training that we all experienced and needed to develop into productive workers.”

John Skorburg (jskorburg@heartland.org) is an associate managing editor of Budget & Tax News and a lecturer in economics at the University of Illinois at Chicago.
St. Louis Taxpayers to Vote on Rams Stadium Plan

By Sean Parnell

Pro football’s St. Louis Rams have rejected a proposal by the St. Louis Convention & Visitors Commission (CVC) for a $124 million renovation of the Edward Jones Dome, with approximately $60 million coming from taxpayers. The team was expected to submit an alternate proposal by May 1.

The rejection, announced in March, is fueling speculation the Rams may be maneuvering to leave St. Louis after the 2014 season, when the team may get out of its stadium lease.

After the Rams make their counteroffer, the CVC can either accept or reject it. If it rejects the offer, both parties would go to binding arbitration, where an arbitrator would establish the final deal.

Citizens Have a Say

Under either scenario, though, voters will have their say. The City of St. Louis passed an ordinance in 2002 requiring a public vote on future tax subsidies for stadium construction, and St. Louis County followed in 2004. Although renovations to the stadium technically don’t require a vote, the mayor and the county executive have both pledged to hold votes.

“New local public dollars spent to make the facility ‘top tier’ will be subject to the prior vote of the people,” Mayor Francis Slay wrote in a February 1 blog post. “If the CVC gets an agreement with the Rams, YOU will get the final say.”

‘Top Tier’ Promise

The lease between the Rams and CVC requires the stadium be kept “top tier” in comparison with other National Football League stadiums. Top tier refers to features such as luxury suites, high-priced club seats, scoreboard, and similar amenities. Most experts believe the dome currently falls outside “top tier” status and would need substantial renovations to achieve it.

Opponents of taxpayer subsidies for sports stadiums were quick to criticize the CVC’s proposal.

Fred Lindecke, spokesperson for the local group Coalition Against Public Funding for Stadiums, said he was puzzled anybody would advocate more tax dollars for stadium renovations at this time.

“The city can’t afford to keep the dog pound open, and the firefighters’ pension is breaking the city budget,” Lindecke said.

Financial Difficulties

The Edward Jones Dome opened in 1995 at a cost of $300 million and was constructed entirely at taxpayer expense, with costs split between the State of Missouri, the City of St. Louis, and St. Louis County. Those three government entities together provide $24 million each year to fund maintenance, improvements, and bond repayments. When it’s finally paid off in 2021, the stadium will have cost taxpayers approximately $720 million.

The request for a new taxpayer subsidy for the dome renovation comes when both the city and the county of St. Louis are facing tight budgets. The city’s police department is looking at a $3.8 million shortfall. The county recently laid off workers or eliminated unfilled positions totaling more than 50 people as part of a plan to close a $24.5 million budget deficit.

A 2008 paper for the North American Association of Sports Economists by economics professors Dennis Coates of the University of Maryland and Brad Humphreys of the University of Alberta reviewed empirical studies on tax subsidies for sports stadiums and concluded, “the large and growing peer-reviewed economics literature on the economic impacts of stadiums, arenas, sports franchises, and sport mega-events has consistently found no substantial evidence of increased jobs, incomes, or tax revenues for a community associated with any of these things.”

Lindecke agrees the predicted economic benefits to St. Louis from the dome’s construction never materialized. He notes two nearby locations that should have benefited from the stadium—the St. Louis Centre shopping mall and the Renaissance St. Louis Grand Hotel—both went bankrupt within a decade of the stadium’s opening.

When asked to comment on any expected benefits to the public of further taxpayer subsidies for the dome, Rams officials stated only that they were following the process outlined in the lease and honoring the stipulation that talks between the team and CVC be kept confidential. The CVC did not respond to multiple requests for comment.

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IN OTHER WORDS . . .

“The economics of the city and state are not going to be receptive to massive public subsidies of a pro sports team. They wouldn’t do it for the baseball Cardinals and the new Busch Stadium in 2006, and those Cardinals are the social fabric that binds the community. So why would they do it for the Rams given the current tenor of the economy and the current state of the team on the field?

‘... Ultimately, I would not be surprised to see the Rams leave because I don’t believe the [Convention & Visitors Commission] is going to make the concessions that the Rams would prefer.

‘Aside from general economic conditions, I also believe that the CVC believes that they could actually generate more economic activity from tourism and visitor spending if the Rams were not around.’

—Columnist Patrick Rishe, Forbes magazine, March 2, 2012
Calif. City Could Be Biggest U.S. Municipal Bankruptcy

By Whitney Stewart

Stockton, California is quite at home on lists of dubious distinctions.

This Northern California city has been variously listed as the city with the second-highest home-foreclosure rate of any major U.S. metropolis and the second-highest violent crime rate in California, and it was two times the frontrunner in Forbes magazine’s list of “America’s Most Miserable Cities.”

Now Stockton is hoping to avoid its next bleak title, that of biggest municipality in U.S. history to enter bankruptcy.

After Heyday, Payday

Eighty miles east of San Francisco and home to nearly 300,000 people, Stockton has cycled through decades of city-planning booms and crime-ridden busts. These days many residents are just doing what they can to stay safe and survive. Unemployment in the city tops 16 percent. Foreclosures are at an all-time high. Homeless shelters are out of beds. The police force has shrunk 25 percent, and this year’s homicide total may surpass last year’s record high of 58.

In the early 2000s, after years of decline, Stockton began pouring money into revitalization projects. Developers built residential subdivisions, a theater complex, sports arena, waterfront walkway, and marina.

City coffers bulged on the resulting property tax increases, and city employee contracts ballooned. One month of city employment meant eligibility for full retiree health care. Today, the city’s long-term health care liability totals more than $400 million. There are 94 pensions each worth at least $100,000 annually.

“Stockton overcommitted to long-term obligations that even under the best of times the city could not afford. So if there was not a recession, the city would have been having the conversation we’re having in four or five years,” said City Manager Bob Deis in a recent Time magazine interview.

Some Debt in Default

Stockton now faces up to a $38 million gap in its $165 million operating budget and already has defaulted on about $2 million in debt payments through June.

On March 27 Moody’s Investors Service downgraded Stockton’s pension obligation bonds from B1 to B3 and the 2006 lease revenue refunding bonds from B2 to Caa1, considered highly speculative and with substantial risk. All of Stockton’s long-term ratings remain under review for further downgrades.

In short, the city is losing ground in the fight to pay back what it owes.

City leaders on March 27 announced Ralph R. Mabey, the federal mediator in the Lehman Bros. bankruptcy, the largest in U.S. history, will lead mediation with creditors in an attempt to restructure Stockton’s debt.

Spreading Worry

There is fear that if Stockton defaults, other cities may follow suit. Yet the worry may be misplaced.

With the exception of Jefferson County in Alabama, most of the 11 municipal defaults in 2010 and 2011 (18 total since the recession started in 2008) were small cities struggling to maintain general services. Those isolated instances—out of about 9,700 rated cities and a $3.7 trillion market—are too small a sample for any sweeping lessons, said Bhu Srinivasan, principal at Munigo, a municipal bond distributor.

“Defaults capture headlines, but it is man bites dog,” he said. “You could go the other way and say in even the deep recession, municipalities are strong and bonds aren’t defaulting.”

Merxe Tudela, vice president and senior analyst with Moody’s, agrees.

“Municipal debt defaults will remain infrequent and isolated events, rather than systemic traumas, despite unprecedented credit pressure,” he said in a March 7 statement.

Residents’ Income Crucial

Still, Stockton’s boom-time expenditures do represent a mentality among city leaders that some say goes a long way toward damaging a city’s long-term economy.

“Every dollar is sacred, and a dollar you put into urban development is a dollar not in the pockets of people who live in the city,” said Wendell Cox, a policy advisor for The Heartland Institute, which publishes Budget & Tax News, and an urban policy specialist and demographer. “Cities are not about warming the hearts of architects. It doesn’t do anyone any good to make a pretty city.”

Cox said true success is based on the incomes of people who live and work in a city. Stability requires long-term problem-solving in areas such as education and business and creating a tax structure that doesn’t over-promise or rely on volatile income.

Whitney Stewart (whitney.stewart04@gmail.com) writes from Minnesota.
Arizona May Cut or End Taxes on Capital Gains

By Stephen Slivinski

Momentum is building to cut or eliminate Arizona’s capital gains tax.

In January, Gov. Jan Brewer (R) included in her proposed fiscal agenda for the year the broad goal of lightening the tax load on capital gains income. Although she remained agnostic on how to do it, several bills filed in the legislature were aimed at phasing out the tax over a period of years. Another would eliminate it in a single year.

Recognizing the importance of lowering taxes on capital as a way of spurring job growth, House Speaker Andy Tobin (R) decided to make elimination of the capital gains tax part of his “jobs bill” for the year. That package passed the House and awaits final action in the Senate.

Most states with income taxes tax capital gains income as “ordinary income” at the standard rates outlined in their tax code. However, eight states tax capital gains income at a lower effective rate, usually through the use of deductions from gross income.

Legislators in both the Arizona House and Senate heard testimony that highlighted the favorable economic impact of lowering taxes on capital gains income.

Increased Investment Incentive

Garrick Taylor, vice president of communications for the Arizona Chamber of Commerce and Industry told the House Ways and Means Committee in January, “Reducing the tax on capital gains increases the incentive for entrepreneurs and investors to risk their own capital in order to expand and create new businesses.”

Research from the Arizona-based Goldwater Institute, building on numerous academic studies on the subject, concluded the eight states that maintain favorable tax treatment for capital gains had, on average, approximately a 35 percent higher average net job creation rate between 2000 and 2007 than states that tax capital gains as ordinary income.

Another important element of capital gains cuts is they encourage increased investment in a healthy way.

Many states often find themselves prone to enticing companies to invest in their state through subsidies and favorable tax treatment that isn’t available to other companies. This form of cherry-picking in the tax code—which some have termed corporate welfare or industrial policy—has been shown to be a poor economic development strategy over the long run even if it appears to increase job growth in the short term.

“Reducing the tax on capital gains increases the incentive for entrepreneurs and investors to risk their own capital in order to expand and create new businesses.”

GARRICK TAYLOR
VICE PRESIDENT OF COMMUNICATIONS
ARIZONA CHAMBER OF COMMERCE
AND INDUSTRY

Capital gains tax cuts, by contrast, apply “to every business or individual that realizes a gain, instead of picking certain industries or certain sectors that are going to qualify for favorable treatment,” noted Steve Voeller, president of the Arizona Free Enterprise Club.

Big Cut, Big Gain

New Mexico is perhaps the best example of a state that attracted new investment by reducing the tax on capital gains. In 2003, Gov. Bill Richardson (D) proposed and signed into law what amounted to a 50 percent cut in the tax on capital gains relative to ordinary income. As a result, the average per-year venture capital investment in New Mexico almost quadrupled. It hoisted the state from 40th in the nation in terms of per-capita venture capital investment in 2003 to 13th in the nation by 2007 when the phase-in of the tax cut was fully implemented.

The question now is whether Arizona’s governor will agree to sign a phase-out of the tax on capital gains or simply a phased-in cut—probably a 50 to 60 percent reduction—in the effective rate on capital gains by allowing at least a generous deduction for capital gains from gross income.

That means Arizona policymakers will soon choose between a zero rate on capital gains taxes and a rate of just under 2 percent. Doing either of these would place Arizona among an elite group of states that have enacted cuts in the tax rate on capital gains income over the past 25 years.

And perhaps most importantly, Brewer’s signature would make Arizona the state with the lowest effective capital gains tax rate in the nation among those that tax income.

Stephen Slivinski (sslivinski@goldwaterinstitute.org) is senior economist at the Goldwater Institute in Phoenix, Arizona.
Bad Tax Ideas on Both Sides of the Atlantic

By Ian Mason

This election cycle, some American politicians have insisted that, in order to solve the government debt problem, millionaires and billionaires must pay their “fair share,” and bankers and financiers must be “held accountable.” Their European counterparts are far ahead of them in this regard.

François Hollande, whom polls predict will be elected the next president of France this May, has promised a 75 percent top marginal tax rate on those earning more than €1 million ($1.33 million) a year. Hollande announced his tax plan on French television in February. Expressing his indignation that CEOs of companies in the CAC40, France’s equivalent of the Dow Jones Industrial Average, earn a mean of €2 million ($2.65 million) a year, he asked, “How can we accept it?”

“Over one million euros per year, well, the tax rate will be 75 percent. Because it is not possible to have these levels of income,” Hollande continued. Later, at the Paris International Agricultural Fair, Hollande insisted this was not an attack on high-earning French citizens, who already pay a 45 percent top marginal income tax rate in addition to social insurance contributions and a “Solidarity Tax” levied on net worth.

Instead, he said, it is a pragmatic measure to fix the country’s fiscal problems and promote fairness. He concluded, “It is patriotism that agrees to pay an additional tax for the country to recover.”

**Tobin Tax on the Table**

An idea by an American Nobel Prize-winning economist apparently is shaping much of the tax debate in Europe and catching the attention of some politicians in the United States.

On both the national and increasingly important European government levels, proposals for taxes on financial transactions abound. They are commonly referred to as “Tobin taxes” in honor of James Tobin, who in 1972 suggested taxes on foreign exchange transactions to reduce speculation in international currency markets. Tobin won the Nobel Prize in economics in 1981 for research unrelated to the Tobin tax. He died at age 84 in 2002.

Current French President Nicolas Sarkozy has announced his government plans to impose such a tax this August.

The United Kingdom, home to 80 percent of Europe’s financial industry, recently vetoed a European Union-wide Tobin tax. Undeterred, France has joined Germany and seven other Eurozone states planning to impose one over a subset of the EU. According to a statement by the finance ministers of those countries, the tax would “ensure a fair contribution from the financial sector to the costs of the financial crisis.”

Since these proposals have come to light, there has been some suggestion they may not lead to their intended outcomes. A study by the European Commission claimed an EU-wide Tobin tax could raise €37 billion ($49.29 billion) annually.

**Money Is Mobile**

Ernst and Young, the American accounting firm, quickly issued a statement countering that the tax would reduce financial transactions and other economic activity in Europe, causing a net €116 billion ($154.51 billion) decrease in overall tax receipts.

Chris Edwards, director of tax policy at the Cato Institute, said in today’s globalized world, “People and businesses are more willing than ever to move.” European proponents of new taxes acknowledge this problem, if not its extent, in their preference for EU-wide taxes. Edwards believes even limiting its application to Europe, however, could be a European economy.

“They will simply shift investment and capital to Asia or anywhere else without these taxes,” he said. He also questions the wisdom of targeting upper-income earners and the financial sectors for more taxation.

“People at the top are the most able to move or hire tax lawyers. [Governments] might have been able to get away with [these taxes] in the 1950s, before globalization, but plenty of French people and businesses have already moved to Belgium or Switzerland to avoid taxes,” Edwards said.

This effect is especially pertinent to financial trading, which, he points out, “Can take place anywhere.”

**Similar Sentiments Here**

In the United States, similar justifications are being used in calls for new taxes. During last year’s national debt ceiling debate, President Barack Obama said of the high earners on whom he proposed increasing taxes, “I think these patriotic Americans are willing to pitch in if they’re asked.”

**New York Times** columnist Nicholas Kristof wrote that Europe’s movement toward a Tobin tax “makes sense,” as similar moves in this country could raise substantial sums of tax revenue from the financial sector.

This election year these sentiments have informed proposals for a 30 percent minimum effective income tax rate and higher capital gains rates. The similarity of these underlying motivations invites comparison with the more drastic and imminent European plans.

Despite a widespread belief in American economic exceptionalism, the same obstacles facing the European taxation plans may undermine their American equivalents. The prominent role of trading and financial services in our economy might render us particularly vulnerable to their flight.

“Even before the crash, there were concerns New York was becoming uncompetitive,” Edwards points out. If new taxes end up driving high earners and financial businesses out of Europe, American lawmakers should by no means take their presence for granted.

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