Atlanta Voters Reject Tax Hike for Transportation, Slap Down Pols

By Steve Stanek

Atlanta-area voters have rejected overwhelmingly a proposed $7 billion transportation tax, even though tax supporters outspent opponents more than 500 to one.

A diverse coalition of grassroots opposition including local Tea Party activists and the NAACP led the charge against the measure. The July 31 vote resulted in the measure losing 63 percent to 37 percent in the 10-county Atlanta region. The measure had bipartisan support from some of the most powerful politicians in the state and city, as well as Atlanta business groups.

“We took on the governor, the lieutenant governor, the mayor, big business, and slick political consultants. We emerged victorious,” local Tea Party leader Debbie Dooley told the Atlanta Journal-Constitution.

She said people “are sending a message, and elected officials would do well to take heed: You aren’t getting any more of our tax dollars until you can show you’re responsible and can be trusted with the money you have now.”

$8,500,000 vs. $15,000

Supporters raised $8.5 million to promote a one-cent increase in the sales tax rate. Opponents raised approximately $15,000.

The additional penny-per-dollar sales 

Billions Taken from California’s Special Funds to Feed General Fund

By Mary Petrides Tillotson

California state government over the past few years has covered general fund expenses by borrowing $4.3 billion from special funds designated for specific purposes, according to an analysis by the Sacramento Bee newspaper.

The news did not surprise Ed Howard, senior counsel of the Center for Public Interest Law.

“I can’t speak to other state govern-

CALIFORNIA, p. 2

Pennsylvania Property Tax

Pennsylvania’s legislature is considering a measure that would end school property taxes and instead increase income and sales taxes to raise the $13 billion the state spends on K-12 schools. 

Pennsylvania, p. 16

Worsening Foreclosure Pain

A little-known or -understood law is scheduled to reappear in 2013, potentially costing those in foreclosure or loan modification thousands of dollars in new tax liabilities.

Michigan Union Push

Michigan unions are working to land a Protect Our Jobs Amendment on the state’s November ballot. If passed, unions’ collective bargaining rights would be added to the state’s constitution.

Carbon Tax Proposal

A carbon tax swap is being discussed that would eliminate subsidies for all energy companies, tax all fuels based on carbon emitted during combustion, and refund the new revenue back to taxpayers.

The Monthly Newspaper for Elected Officials and Taxpayers
Billions Taken from California’s Special Funds to Feed General Fund

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ments, but it’s been a longstanding practice in California,” said Howard. “It has a dual impact. The first is that it tends to prevent the search for enduring budget solutions, and the second is that it impairs the ability of specially funded government entities from doing their important jobs.”

Papering Over Problems
Howard said the shifting of money from one fund to another makes it difficult to understand and deal with the budget.

“If, every year, the general fund is borrowing from special funds, then we’re never squarely confronting the deficit of the general fund,” he said. “We’re making up for it by taking a little here, taking a little there from special funds. It prevents a general fund solution to a general fund problem.”

Rhys Williams, spokesperson for California Senate President Pro Tem Darrell Steinberg (D), said in an email to Budget & Tax News the loans are necessary to keep the general fund balanced.

“Special fund loans are a small part of the budgetary solutions to prevent gutting California’s core services completely,” he said, noting the current $91.3 billion budget included $1.1 billion in loans from special funds.

Sitting on Cash
Another issue is the failure to use special fund revenues, said Kris Vosburgh, executive director of the Howard Jarvis Taxpayers Association. He noted the state’s parks department had raised $54 million through various charges and fees for off-roading facilities. The department never spent the money—and until recently had successfully hidden it from state auditors.

“That may not be important to the average Californian, but if you’re an off-roader, it is,” Vosburgh said. “The important thing is if you’re collecting money for this purpose, they should have a reasonable expectation that’s what the money’s going to be used for. If it’s not, they shouldn’t be charged.

“It’s just part of the bureaucratic nightmare that is California,” Vosburgh said. “If they spent it, it would solve some of the problems that they normally go to the general fund for.”

State departments are reluctant to spend special fund money because they might receive less from the general fund, he said.

“All of their department heads, they don’t want to tell the legislature they have money to do the job, because it might reflect what their future budget might be. They don’t ever want to concede they need less money,” Vosburgh said.

Looking for Limits
“There are two sides,” Howard said. “The first is to cut it out. ... If you can’t cut it out entirely, there must be some kind of system where these funds are borrowed and repaid with limits on the ability to borrow every single year in unlimited amounts. There needs to be a balance if you’re going to do it at all.”

Williams said the loans are being repaid.

“We have actually been repaying special fund loans ... and the credit rating agencies have recognized that we are relying less on the one-time budget solutions, such as special fund borrowing,” he wrote in the e-mail.

Much of the borrowed money has gone toward funding social programs, Howard said.

“There are powerful reasons to try to [borrow],” he said. “It’s to prevent more dramatic cuts to social programs that help children and the elderly and single mothers.”

Vosburgh said he is glad newspaper reports are helping citizens learn how the state has been handling the money.

“Now that the people have an idea of what’s going on, the politicians, we hope, will be forced to make use of this money,” Vosburgh said. “And if it’s not going to be used, the charge used for these funds should be eliminated. State government has so many ways of hiding money, transferring money. And then they still want to raise taxes.”

Looming Referendum
This November, Californians will vote on Proposition 30, a measure to raise the state’s sales tax and income tax on high earners. Despite his disapproval of the state’s handling of finances, Howard supports Proposition 30.

“If the initiative fails, and we are not able to address our deficit problems by bringing in more money, the borrowing will only get worse,” he said. “If you’re a family, and one of the breadwinners gets laid off, you can reduce your expenditures, but you also want to have that guy go out and look for more work. So every family knows that when there’s a fiscal crisis at home, you need to look not just at your expenditures but at your flow of money.”

Williams blamed Republicans for the state’s budget problems.

“Until Republicans relent on their outright refusal to address revenue, the special fund loans avoid even deeper and deeper cuts into education, higher education, health care and public safety,” he wrote in the email.

Vosburgh said he’s not sure the tax increases will pass.

“When folks are doing well, they’re more open to taxes,” he said. “But we have the third-highest unemployment in the nation. Foreclosures are going up again. Businesses are not feeling welcome here. They’re not coming here, and they’re leaving.”

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tax was estimated to raise more than $7 billion to pay for transportation projects over the next decade. Most of the money would have gone to public transit rather than to highways.

That presented a major focus of attack for opponents, who said the emphasis on public transit was misplaced. Atlanta has seriously clogged highways, and public transit carries almost no traffic compared to highways. Opponents also argued a sales tax increase would hit lower-income residents harder than higher-income earners.

‘A Blow for Rational Policy’

“Voters were asked to tax themselves $7 billion to not reduce traffic congestion,” said Wendell Cox, an urban planning expert and policy advisor to The Heartland Institute, which publishes Budget & Tax News. “People knew that spending more than 50 times as much per transit rider as car passenger could not reduce traffic congestion in a city where transit moves only 1 percent of travel.”

WENDEL COX, POLICY ADVISOR, THE HEARTLAND INSTITUTE

Atlanta Voters Reject Tax Increase for Transit, Slap Down Political Leaders

not reduce traffic congestion in a city where transit moves only 1 percent of travel. As a result, the voters struck a real blow for rational public policy.”

Cox added, “Atlanta needs transportation that builds the economy by minimizing travel times and reducing traffic congestion. That means getting the traffic moving, not politically correct dead-ends out of a radical environmentalist playbook.”

Atlanta Mayor Kasim Reed, a Democrat, worked feverishly in the days leading up to the election to turn out votes for the tax increase. He and Republican Gov. Nathan Deal and other high-profile supporters argued the tax increase was needed to create jobs, reduce traffic congestion, and maintain the region’s economic strength.

Missed Message?

Despite the trouncing of the tax-increase proposal, Reed remained steadfast in his support for it.

“I respect the decision of the voters, but tomorrow I’m going to wake up and work just as hard to change their minds,” he told supporters at an election-night rally.

In a statement after the vote, the governor said the rejection of the measure is “merely a transition point.”

“Given state budget constraints, significant reductions in federal funding, and the long time it takes to get projects completed, the rejection of the TSPLOST significantly reduces our capacity to add infrastructure in a timely fashion,” Deal said. “This is not the end of the discussion; it’s merely a transition point. There’s a consensus among Georgians that we need transportation investment, and we must move forward by working with the resources available.”

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Tax on Debt Forgiveness, Foreclosures to Return

By John Skorburg

As Congress focuses on the upcoming federal elections, a little-known or understood law is scheduled to reappear, potentially costing those in foreclosure or loan modification thousands of dollars in new tax liabilities.

“There is a very dark cloud on the horizon that will be devastating to those facing foreclosure or even a short sale or loan modification,” said James L. Paris, founder and editor-in-chief of ChristianMoney.com.

In 2007 Congress passed the Mortgage Forgiveness Debt Relief Act, which forgave taxes that normally would be owed when a home is foreclosed or short-sold, or when a loan is modified. The protections under this law expire on January 1, 2013, leaving millions of homeowners in a very precarious situation.

Foreclosures Had Been Taxed

Bankruptcy historically has not been taxed, but foreclosures have been.

“Historically, the way the tax code deals with bad debts is to allow the creditor to write off the debt and require the debtor to declare the forgiven debt as income,” said Paris. “A major exception to this is bankruptcy. A debtor can discharge their debts in bankruptcy without any tax consequences in most cases. In fact, this is one of the major reasons that people file for bankruptcy.”

The IRS Web site notes, “If you owe a debt to someone and they cancel or forgive that debt, the canceled amount is usually taxable, as income on your tax return. Following a foreclosure, short sale or loan modification, a lender forgiving a portion of your debt issues a 1099 in the amount of the forgiven debt.”

The Web site continues, “The Mortgage Debt Relief Act of 2007 allows taxpayers to exclude income from the forgiveness of debt on their principal residence.”

“Congress assessed the landscape of America’s economy and real estate crisis and decided to forgive the tax consequences of those that lost their home to foreclosure,” Paris said. “The provision was written to also forgive the tax consequences associated with a short sale or loan modification as well. So, on the one hand the lenders were allowed to take their write-offs but the government would not require the debtor to face any tax consequences. This applied only to principal residences and was a great move that likely kept millions out of bankruptcy. The 2007 act was never meant to be a long-term part of the tax code and is set to expire at the end of 2012.”

Paris gave the following example: “Just consider $50,000 of debt forgiveness added as income to your tax return and what that would do. Not only would you owe income taxes on this money, but it likely would kick you into a higher tax bracket, raising the marginal tax rate that would apply to the income you earn from your employment as well.”

Election Could Delay Action

Paris said he doubts Congress will extend the tax moratorium on foreclosures before it expires but thinks Congress might take action in 2013.

“It is unlikely that Congress will take any action on this due to the upcoming election,” he said. “The most that can be realistically hoped for is that the new Congress will enact a retroactive measure early in 2013. This may or may not happen, and individuals that follow tax legislation closely are split on their expectation of an extension of the 2007 act.”

Paris said persons finding themselves in foreclosure or needing to complete a short sale or loan modification should “grab a calendar and circle December 31 in red.” These tasks can take months to complete. To be safe, said Paris, people need to do everything they can to make the forgiven debt stay in 2012.

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.
Election-Year Moves Stall Huge Farm Bill

By Tim Kelly

The U.S. Senate passed the 2012 Farm Bill with a vote of 64-35, but the bill was pulled from the House calendar just before Members adjourned for their August recess after it became clear there were not enough votes to pass it.

Some House members balked at its huge price tag, arguing too much of the money would go toward food stamp spending.

Of the $969 billion the bill proposes to spend over 10 years, nearly 80 percent would go toward the Supplemental Nutritional Assistance Program (SNAP), better known as food stamps. The legislation also funds wetland conservation, crop price supports, crop insurance, energy, school lunches, and other federal programs.

Eighty-two House members from both sides of the aisle had sent a letter urging leadership to send the bill to the floor for a vote. However, House Speaker John Boehner (R-OH) and Majority Leader Eric Cantor (R-VA) apparently have decided not to give the bill floor time before the 2012 elections.

At the same time, agriculture committee leaders in the House and Senate reportedly are hoping to pull together support for a five-year bill to be voted on by September 30, when the current Farm Bill would expire.

Time Running Short

Negotiations on a final version likely would be conducted behind closed doors where the Senate and House bills would be reconciled into a single piece of legislation. It would then be voted on as a “must pass” bill during Congress’s lame duck session, which starts in November.

Among the issues stalling the bill’s passage is an expanded crop insurance program that would replace many of the subsidies farmers currently receive.

The program would provide money to farmers during seasons with poor harvests but avoid granting price supports in years with high revenues.

Farm Bill defenders say the crop insurance provision would save billions of dollars in direct payment subsidies that farmers receive regardless of whether they plant crops. Critics say it would encourage farmers to grow high-risk crops and create more exposure for effects of risk-taking, should decide costs of products, shouldn’t the same philosophy guide our new farm legislation? Shouldn’t lawmakers insist that taxpayers not fund private entrepreneurial business ventures, one of which happens to be agriculture?”

‘Going to Have to Cut’

Rep. Jim Jordan (R-OH) said in a bloggers’ conference call that the 2012 Farm Bill is not only ill-conceived, but poorly timed given the current economic conditions.

“At some point we are going to have to cut some spending,” said Jordan. “This is going to cost taxpayers a boatload of money.”

Food Stamp Spending Surges

Food stamp spending has more than doubled since 2007, going from $30 billion to $72 billion, according to the CBO.

While increasing spending on traditional food stamp programs, the Farm Bill does end automatic enrollment in SNAP’s heating bill subsidy program known as LIHEAP (Low-Income Home Energy Assistance Program).

But critics of the Farm Bill’s gargantuan price tag do not find solace in that one small spending cut.

“For all of their Tea Party bluster, the House Republicans have proposed a wasteful, big-government program that disrupts the private market, spends billions of taxpayer dollars that we don’t have, and harms the environment,” said Eli Lehrer, president of R Street. “If Republicans are serious about cutting government, they need to start from scratch.”

Tim Kelly (tkelly67@comcast.net) is political cartoonist, a policy advisor and columnist for the Future of Freedom Foundation, and a correspondent for Radio America’s Special Investigator.
High-Speed Rail Advocates Discredit Their Cause—Again

By Aaron M. Renn

Is there any high-speed rail boondoggle big enough to make rail transport advocates reject it? Sadly, for all too many of them, the answer is no, as two recent developments make clear.

The first is in California, where the state continues to press forward on a high-speed rail plan for the state that could cost anywhere from $68 billion to $100 billion.

Voters had previously approved $10 billion in bonds for the project, but as the state’s economy and finances have continued to sour—including multiple major cities going bankrupt—the polls have turned against it, and with good reason.

The state faces the prospect of already enacted education cutbacks if Gov. Jerry Brown’s tax increase proposal is not approved in a vote this fall. Other service cuts loom. Voters are rightly asking themselves if now is the time to be borrowing public money for very expensive, speculative infrastructure.

Equally, many of the much-cited overseas examples of high-speed rail seem, well, to be off the tracks. China’s rail system has serious safety problems, for example. And developing the most extensive high-speed rail system in Europe hasn’t stopped Spain from seeing 50 percent youth unemployment, a 3 percentage point increase in the VAT (value-added tax), and a humiliating bailout from the rest of the European Union.

Running ‘Train to Nowhere’

Nevertheless, the California Assembly recently voted to go full-speed ahead on its high-speed rail plans. As part of an overall $8 billion rail spending package, the state is borrowing $2.6 billion to complement $3.2 billion in federal funds left over from the stimulus (shovel ready?) to build a starter segment of the line linking Bakersfield and Madera through the Central Valley.

This is the easiest segment on which to build—though legal action is likely to delay construction—but it doesn’t do anything to link the state’s huge population centers around Los Angeles and the Bay Area. With no more significant federal funds likely to be forthcoming, and the state’s finances a wreck, this segment risks becoming an embarrassingly white elephant, or, as critics call it, “a train to nowhere.”

After this vote it came to light that respected French high-speed rail operator SNCF had approached California officials, private funding in hand, with a preliminary offer to build the LA-San Francisco link themselves on a better and cheaper alignment along I-5 that would cost only $38 billion. But that offer was rejected by the state.

The Los Angeles Times account suggests the rejection came about due to a combination of a political preference for the inefficient Central Valley segment and the clout of the lead contractor, Parsons Brinckerhoff, a giant New York City-based engineering and construction management firm. Some commentators have referred to this revelation as a “bombshell.”

Despite management misstep after management deception, rail advocates around the country cheered California’s decision to build the Central Valley segment. Jerry Brown, with not much to show for his reprise as governor, is excited of course. U.S. Secretary of Transportation Ray LaHood called it a “big win.” America 2050, an offshoot of the Regional Plan Association of New York, “commended” the state for “taking a big step forward.” Streetsblog called it a “major victory.”

While I respect what these organizations do in other contexts, this high-speed rail vote is not a major victory, but a major defeat for common sense.

Amtrak Embracing Fantasy

But apparently not willing to let California take the prize in the rail boondoggle category without a fight, Amtrak shortly thereafter issued a “vision” for rail in the Northeast Corridor that would provide faster service between Boston and Washington, DC—at a cost of $151 billion. Strange as it sounds, some commentators actually lauded Amtrak for reducing costs since the previous plan was $169 billion.

The Brookings Institution was measured in its reaction to the plan but managed to describe it as “more rational.” With Republicans seemingly safely in charge of the U.S. House for now, and large federal deficits projected for the mid-term future, $151 billion for Amtrak seems purest fantasy.

These developments are unfortunate because high-speed rail could play an important role in U.S. transportation, particularly in the Northeast. But that’s unlikely to happen because of the indiscriminate way establishment advocates have supported anything with the “high-speed rail” label attached, ranging from $2 billion, 110 mph peak speed Toonerville Trolleys in Illinois that barely beat Megabus in terms of journey time, to the California rail boondoggle, regardless of merit. All they know is that if it claims to be high-speed rail, they favor it.

Discrediting Rail for Long Term

There are other people who take a more serious view. Unfortunately, they tend to be outsiders with little influence. For example, Alon Levy suggested a set of near-term, incremental Northeast Corridor improvements that might cost 90 percent less than Amtrak’s plan.

Eight billion dollars in stimulus funds have gone to purchase us nothing of any real significance in terms of rail infrastructure. That money, invested wisely in high-priority projects in the Northeast Corridor, could have made a big difference and started building a real demonstrated case for high-speed rail investment in America.

Unfortunately, the way high-speed rail has been botched by its advocates, all the money we’ve spent on it has accomplished just the opposite. If California’s Central Valley segment is built and the complete line is never finished, it will likely discredit high-speed rail in America for the long term.

Aaron M. Renn (arenn@urbanophile.com) is an independent writer on urban affairs and founder of Telestrian, a data analysis and mapping tool. Used with permission from NewGeography.com.
State Tax Collections Top Pre-Recession Levels

By John Skorburg

Overall state tax collections have recovered from the Great Recession, according to a recent report from the Rockefeller Institute of Government at the University of Albany.

“States’ tax collections grew for the ninth straight quarter in the first three months of 2012,” said the report’s author, Senior Policy Analyst Lucy Dadayan. “Overall state tax revenues are now above pre-recession levels, as well as above peak levels that came several months into the Great Recession. Yet fiscal challenges remain. Twelve states reported tax revenue declines in the first quarter, and local taxes fell.”

Although the toughest times appear to be over, several fiscal challenges at the state and local levels remain, she said.

In the first quarter of 2012, total state tax revenues were 4.8 percent higher than during the same quarter of 2008. After adjusting for inflation, however, revenues are 1.6 percent lower compared to the same quarter four years ago.

All regions but the Far West reported growth in total collections. The Great Lakes region showed the largest gain at 13.2 percent, followed by the South-west states at 7.9 percent. The Far West region showed a decline of 0.9 percent. The Great Lakes region’s gain was skewed by large tax increases in Illinois.

Revenue gains were particularly strong in North Dakota, up 52.6 percent, mostly due to the booming oil and natural gas industries. The strong growth in the Great Lakes is largely attributable to Illinois, where personal income tax collections grew by 41.1 percent, mostly driven by a 67 percent increase in the personal income tax rate in 2011. Illinois also raised the corporate income tax rate 46 percent.

The Far West reported overall declines in California, Hawaii, and Oregon.

According to the report, the growth in state tax revenues has been “neither fast nor uniform” across states. However, state fiscal conditions in general have recovered faster than the overall economy, as measured by gross domestic product (GDP), employment, or consumer spending.

“Throughout 2011, state tax revenue has risen significantly while the overall economy has been growing at a relatively slow pace,” Dadayan said. “Also, in much of 2009 and 2010, state revenue declines were much larger than the quarterly reductions in real GDP. Thus, although the growth rate in state tax revenues is not far from the growth rate in the overall economy in 2012, state tax revenues have been more volatile than the general economy in prior years.”

One reason for the recent surge is relatively strong sales of durable goods.

“Durable goods consumption, an important element of state sales tax bases, showed an increase of 6.9 percent in the first quarter of 2012 relative to the same quarter a year ago,” said Dadayan. “However, the growth in durable goods has softened compared to the 10 percent growth reported in the same quarter of 2011.”

While state tax revenues have been recovering, many localities face significant fiscal challenges. The report notes most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than state income, sales, and corporate taxes respond to declines in the overall economy.

“One reason for the recent surge is relatively strong sales of durable goods. ‘Durable goods consumption, an important element of state sales tax bases, showed an increase of 6.9 percent in the first quarter of 2012 relative to the same quarter a year ago,’ said Dadayan. ‘However, the growth in durable goods has softened compared to the 10 percent growth reported in the same quarter of 2011.’

While state tax revenues have been recovering, many localities face significant fiscal challenges. The report notes most local governments rely heavily on property taxes, which tend to be relatively stable and respond to property value declines more slowly than state income, sales, and corporate taxes respond to declines in the overall economy.

The Great Recession led to a growing divergence between state and local government tax performance,” Dadayan said. “State tax revenues collapsed steeply from 2008 to 2010 while local tax revenues continued to grow. Such trends have reversed since 2010, and state tax revenues started trending upward while local tax revenues have been mostly heading downward. Fiscal pressures are continuously mounting for local governments, and depressed housing prices are now causing declines in local property taxes.”

Local property tax revenues showed a decline of 0.9 percent in the first quarter of 2012 compared to the same quarter of 2011.

Internet Info


The Heartland Institute is a national nonprofit public policy research organization founded in Chicago in 1984. Its mission is to discover, develop, and promote free-market solutions to social and economic problems. For more information, visit our Web site at www.heartland.org or call 312/377-4000.
The Heartland Institute’s Seventh International Conference on Climate Change (ICCC-7) took place in Chicago, Illinois from Monday, May 21 to Wednesday, May 23, 2012. It was an unqualified success.

Approximately fifty speakers addressed nearly 300 audience members eager to learn the truth about the causes and consequences of climate change. Especially noteworthy speakers included Vaclav Klaus, president of the Czech Republic, Congressman James Sensenbrenner, European Parliament member Roger Helmer, and former astronauts Harrison “Jack” Schmitt and Walter Cunningham.

This year’s theme was “Real Science, Real Choices.” Scientists, doctors, and economists from Australia, Canada, Germany, Israel, Norway, and the U.S. addressed everything from the latest research on solar cycles and cosmic rays to paleoclimatology, extreme weather events, renewable fuels, and contemporary temperature records.

If you weren’t able to attend this exciting event, please view the videos of the presentations at climateconference.heartland.org. Watch, listen, and learn for yourself what the real science of climate is revealing, and what choices we all must make as citizens and consumers.
Employers Fear Job Losses from Michigan’s ‘Protect Our Jobs Amendment’

By Mary Petrides Tillotson

Michigan labor unions are working to land a “Protect Our Jobs Amendment” on the state’s November ballot. If the measure passes, unions’ collective bargaining rights would be added to the state’s constitution.

“I think they should rename it the ‘Drive Our Jobs Away Amendment,’” said Greg Mourad, vice president of the National Right to Work Committee. “I think it will tell every business owner in the country that Michigan is not interested in any significant labor law reform, and that they continue to want to empower Big Labor rather than empowering individual workers.”

Several unions and organizations that support the amendment were contacted for comment. None responded.

Union Power in Constitution

According to protectourjobs.com, the amendment would, among other things, “establish the people’s rights to organize to form, join, or assist unions and to bargain collectively with public or private employers regarding wages, hours and other terms and conditions of employment.”

In addition, the Web site says, the amendment would grant government employees collective bargaining rights and prevent the state and local governments from interfering with those rights.

The amendment would forbid passage of a state right-to-work law and prohibit “even the most modest reforms to the existing monopoly bargaining systems,” Mourad said. “It will be the unions’ right to a monopoly bargaining position.”

“It could have a disastrous effect on the economy,” said Vincent Vernuccio, director of labor policy at the Mackinac Center for Public Policy. “Many of the reforms that have helped Michigan turn the corner from the economic malaise of the last decade could be almost immediately wiped out.”

Union Veto Power

The amendment would give government unions power over the state’s constitution, Vernuccio said.

“Every bargaining session would be a mini-constitutional convention,” he said. “Protect Our Jobs is a radical constitutional amendment that would give union bosses a veto over legislation concerning government collective bargaining.”

He noted as an example the 80/20 law, recently passed, which requires government employees to pay 20 percent of the cost of their own health care.

“The Protect Our Jobs Amendment could instantly veto that. If a union wanted the taxpayers to pay 100 percent … they could overrule that legislation,” he said. “Five hundred million dollars in savings would vanish.”

Lawmakers Would Be Hamstrung

He also pointed to a Michigan law requiring school officials to consider factors other than seniority when deciding which teachers to fire or lay off. With the amendment, a teachers union could overrule that, he said.

“Instead of looking for the worst teacher, just look at the one with the lowest seniority,” he said.

Often, he added, unions have helped elect the officials they will later bargain with, creating obvious conflicts of interest.

“While the school board will have a say, if they’re already very friendly with the union, they’ll give the union what they want and no one can stop them,” he said. The amendment would take away the state and municipal ability to legislate what unions can and cannot bargain for, he said. Little would be left to the state.

“The only thing POJA leaves to state legislation is setting minimum standards and making laws concerning strikes,” he said. “The real point is that … unions can veto any law an elected official makes. End of story.”

Right to Work Reform

Mourad said Michigan would benefit from having a state right-to-work law, which would prohibit making union membership a condition of employment. The state also should ban union-only project labor agreements on construction projects, he said.

“[With a right-to-work law] nobody could be forced to join a union,” he said. “Union bosses get far more responsive to the needs and desires of their members, because those individual workers all of a sudden can leave if [a union boss is] being unreasonable or ridiculous, and that makes for better unions.”

He noted states with right-to-work laws create more jobs than those that allow union membership as a condition of employment.

“Companies want to move to right-to-work states,” he said. “Indiana passed a right-to-work law and saw an immediate uptick in companies bringing in jobs.” Many of those companies cited the right-to-work law as a reason for moving into the state, he said.

Project Labor Drag

Project labor laws work similarly.

“Union-only project labor laws say only the unionized [sector] gets to bid on a particular construction project, … denying work to people who may well be able to produce the best bid,” Mourad said.

That comes at a great cost—“not just the wage rate but the union work rules, rules that say the guy swinging the hammer isn’t allowed to drive a wrench. All those things drive up costs,” he said.

Without reforms, Michigan’s future is bleak, he said.

“Michigan is in desperate need of reforms. Their economy is already in shambles. Jobs are fleeing the state. People are fleeing the state, chasing the jobs. Even if this has no harmful effect whatsoever, it will certainly prevent any meaningful job [creation],” he said, “and Michigan will continue to die a slow, lingering death.”

Several unions and supporters of the amendment—including Protect Our Jobs, the Michigan Chamber of Commerce, the American Federation of Teachers, United Auto Workers, Progress Michigan, We Are the People, Michigan Nurses Association, Lecturers Employee Organization, and Michigan State Utility Workers Council—were asked for comment. None returned calls for comment.

Mary Petrides Tillotson (mary.c.tillotson@gmail.com), a former Michigan reporter, now writes from Front Royal, Virginia.
Reports Death of Union Influence Greatly Exaggerated

By David Denholm

Reports of the death of labor union influence in American politics are greatly exaggerated—and a bit premature.

Organized labor no doubt has had a rough time of it in recent months and indeed years. For many people, the focus on union woes began in June, when Wisconsin voters refused to recall Gov. Scott Walker (R). Walker actually received 200,000 more votes in the recall election than he received in 2010 to become governor. In addition, 40 percent of the members of union households voted for him to remain in office.

On that same day in San Jose and San Diego, California, voters by overwhelming margins chose to reduce government pension costs. Those measures were, of course, vigorously opposed by labor unions.

Falling Approval Ratings

Public opinion toward labor unions has been declining in recent years. In August 2009 the Gallup Poll reported, for the first time since it began asking the question in 1936, public approval of labor unions was less than 50 percent.

This may have seemed to be a result of the widespread news coverage of union goons harassing Tea Party protestors just a few weeks before the poll was taken. But the following February the Pew Center reported a plurality of poll respondents had an “unfavorable” impression of labor unions.

The decline of labor unions has been a long time in the making. Union density—the percentage of the workforce in unions—peaked at approximately 30 percent in the 1950s. At that time about 35 percent of workers on private payrolls and 12 percent of government employees were union members.

Fast forward to 2011, and the Bureau of Labor Statistics reports 11.8 percent of the total workforce—6.9 percent in the private sector and 37.0 percent in the public—are members of labor unions.

This is a complete reversal of the situation in the union heyday and may help to explain organized labor’s image problem.

Unions’ Changing Makeup

In the “good old days” when Gallup asked about approval of labor unions, what came to mind were factory workers and construction tradesmen. As a consequence of union decline in the private sector and growth in the public sector, in 2011 more than half of all union members in the United States work for government. This is true even though only about one in six jobs are in government.

It is likely that the twenty-first century image of U.S. labor unions is a far cry from that of the 1950s. For many Americans the public perception of government employees is, as demographer and urban planning consultant Wendell Cox so aptly put it, the “privileged class.”

It seems as if the only thing the unions have left is money—lots of money. In Michigan they are pushing a ballot measure with an Orwellian name—the “Protect Our Jobs Amendment”—to cement union special privileges in the state constitution. A recent press report indicates the unions already have mustered more than $8 million to promote the amendment.

In California unions are fighting Proposition 32, a political spending initiative that would bar the use of union dues for politics. The National Education Association, which itself has financial problems, found an extra $5 million to give to its state affiliate, the California Teachers Association, to fight this battle. The state affiliate has chipped in another $7.5 million. And that’s just one union is a state where government unions are the king of the political money hill.

Diverse Rank-and-File

An interesting dichotomy is that some economists recognize unions benefit most those who need help least, yet they support unions as a voice for workers. It is that “voice for workers” that has caused unions so much legal trouble and negative publicity. It is not as if all workers’ political beliefs are cut from the same mold. Ronald Reagan, after all, garnered 45 percent of the union household vote in 1980 despite vigorous union opposition.

Over the past four decades the National Right to Work Foundation has gone to the U.S. Supreme Court repeatedly to win victories for workers who objected to their forced dues being spent on political causes to which they objected. This sort of political freedom is as old as the nation itself. In the debate on Virginia’s Religious Liberty Act, Thomas Jefferson famously said, “to compel a man to furnish contributions of money for the propagation of opinions which he disbelieves and abhors is sinful and tyrannical.”

Worsened Pensions Picture

All of the above is taking place in the context of new guidelines from the Governmental Accounting Standards Board regarding accounting for the accrued liabilities of public pension plans. Plans that had looked reasonably well-funded are in trouble, and those that looked poorly funded are basket cases.

One example: Under the old rules the Illinois Teachers Retirement System appeared to have enough funding to cover 48.4 percent of its obligations. Under the new standards that figure is 18.8 percent.

“Under the old rules the Illinois Teachers Retirement System appeared to have enough funding to cover 48.4 percent of its obligations. Under the new standards that figure is 18.8 percent.”

David Denholm (david@psrf.org) is president of the Public Service Research Foundation, a research and education organization studying labor unions and union influence on public policy.
Some Conservatives Are Pushing for Carbon Tax Swaps

By Taylor Smith

Carbon taxes have re-entered the political discussion amid reports former Congressman Bob Inglis (R-SC) is building support for a carbon tax swap that would eliminate subsidies for all energy companies, tax all fuels based on carbon emitted during combustion, and refund the additional revenue to taxpayers by cutting taxes on savings and investment.

The idea has been endorsed by economists from both sides of the political aisle, from Arthur Laffer on the right to Joseph Stiglitz on the left. Inglis, whose record as congressman earned him an American Conservative Union rating of 93 out of 100 possible points, said, “Conservatives have the answer to our energy and climate challenge.”

Inglis continued, “It’s about correcting market distortions and setting the economics right. We need to stop retreating in denial and start stepping forward in the competition of ideas.”

Think Tank Scrutiny

Myron Ebell, director of the Center for Energy and Environment at the Competitive Enterprise Institute, sent an alert to free-market allies concerning the American Enterprise Institute, another conservative organization, having hosted a secret meeting with some liberal groups to coordinate a push for a carbon tax.

Reports of the meeting sparked an immediate backlash. When asked about the meeting, AEI President Arthur Brooks denied his organization is responsible for any formal push for a carbon tax.

“It was a meeting that AEI didn’t organize, and we don’t take institutional positions,” Brooks told the Washington Times. “Our scholars are interested in all sides of this. The only scholar who has taken a position on it personally is Ken Green, and he’s against it. So we really haven’t gone very far down this road at all. Some other outside groups organized a meeting, and that’s basically all it was. It kind of got reported on as if it were an AEI initiative, but it wasn’t.”

Revenue Neutrality—or Tax Hike?

Laffer has declared he takes no position on the issue of manmade global warming—the alleged justification for carbon taxes—but he has backed up Inglis’s carbon tax swap initiative by saying a carbon tax, dollar for dollar, would be less destructive to economic activity than the current progressive income tax system.

Joseph Bast, president of The Heartland Institute, which publishes Budget & Tax News, questions the revenue-neutrality of tax swaps and points out the proposal ignores the issue of government spending.

“In the history of taxation in the United States, it is difficult or perhaps impossible to find a new tax that has led to the elimination or permanent reduction of an existing tax. New sources of tax revenue invariably result in higher government spending,” Bast said.

Taylor Smith (tsmith@heartland.org) joined The Heartland Institute in April 2012. He is currently a policy analyst for the organization’s Government Relations Department.

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Private Donors Step Up to Keep Calif. State Parks Open

By Kenneth Artz

Private donors are stepping up to help California keep its state parks open, allowing state officials to forego plans to close 70 of California’s 278 state parks.

Low Attendance, Revenues

The Parks and Recreation Department had targeted the 70 state parks for closure due to low attendance and low revenues. Parks and Recreation Director Ruth Coleman said with proposed budget cuts over the next two years, the state could no longer afford to operate all the parks within the system.

Now, private donations will allow the state to keep the parks open at least through the end of the year.

California is second to Alaska in terms of the most acreage set aside for state parks. Low attendance and low revenues, however, have many wondering whether the state has set aside too much land.

Advocates of extensive state parks failed in a recent attempt to raise more tax money for California’s parks system. In November 2010, voters rejected Proposition 21, an $18 registration fee hike for vehicles that would have raised an estimated $500 million for state parks.

Present System Unsustainable

H. Sterling Burnett, a senior fellow with the National Center for Policy Analysis, says even though private donors have stepped up to the plate for now, California’s state park system is not sustainable in its current form.

“Every acre set aside as parkland is taken off the tax rolls in a time when the state faces a massive budget deficit and cities are toppling like dominos to bankruptcy. As it now stands, the parks are subsidized by the taxpayers in an era when the state is $48 billion in the red. To me, that’s crazy,” Burnett said.

Burnett says privatization offers a viable long-term solution.

“If at least some of these parks were sold to private interests, businesses, jobs, and tax revenue would be created. In a time when we are worried about creating jobs, the state legislature is instead worried about keeping parks open,” Burnett explained.

“I don’t question whether they have the right to have a state park system, but I do question whether it’s wise to have such an extensive number of parks. If it’s wise to do so, how many parks do you need?” Burnett asked.

Jon Coupal, president of the Howard Jarvis Taxpayers Association, agrees.

“When legislators threaten to shut things down, they always come up with the money at the last moment and later use this as an excuse to raise taxes. And when the voters don’t approve the taxes, then they threaten all sorts of doom and gloom,” said Coupal.

Jay Lehr, science director for The Heartland Institute, which publishes Environment & Climate News, wondered why people want ever more land taken away from the people and turned over to government.

“Not only is freedom preserved when people own their own property, but individuals are more likely to be good stewards of land than are government bureaucrats,” said Lehr.

Presenting Another Model

Leonard Gilroy, director of government reform at the California-based Reason Foundation, recommends a public-private partnership for state parks.

“The U.S. Forestry Service already has over 25 years’ worth of successful experience with public-private partnership. By allowing private companies to take over day-to-day operations of the state parks, California can take a revenue-using public park and turn it into a revenue-generating asset for the state,” Gilroy said.

California recently signed its first corporate agreement with American Land & Leisure Co., which will oversee daily operations of three state parks for five years. Three other state parks also are slated for private management. American Land & Leisure will run all concessions, visitor services, and security, and it will assume the parks’ legal liabilities while the state maintains ownership of the park lands.

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“This is a big first step for California,” said Gilroy. “Although many people worry about private companies turning state parks into Disneyland or building a McDonald’s on them, that will never happen because the private companies have contracts that state specifically what they can or cannot do. For all intents and purposes, they will look, breathe, and act like California state parks.”

Economic Benefits Possible

Gilroy noted private companies are likely to operate state parks in a more economically prudent manner.

“The labor model changes the minute a private company starts running state parks. For instance, a lot of highly paid park rangers are employed by the state, and they’re there year-round. They have expensive health and retirement plans, but a lot of what they do could be considered menial work such as picking up trash or cleaning bathrooms. A private company can hire seasonal and part-time workers, allowing the park rangers to do more important things at the park,” said Gilroy.

“California’s state parks are looking at $1 billion in deferred maintenance costs, so we’re going to have to be creative if we want to keep them open,” Gilroy added. “State park systems around the country are all in the same boat—the money just isn’t there anymore. And what’s left is being fought over in a game of budgetary football, where the parks don’t stand much of a chance of winning. So if the choice is between shutting them down or allowing private companies to operate them, then I’m sure people will make the right decision.”

Kenneth Artz (jamkenartz@hotmail.com) writes from Dallas, Texas.
Moody’s Worried About More Muni Bankruptcies

By Phil Britt

First Stockton, then San Bernardino. Moody’s Investors Service worries more municipal bankruptcies could be on the way.

Stockton, California filed for bankruptcy in late June, followed less than two weeks later by another major California city, San Bernardino.

These recent municipal bankruptcy filings signal more cities may be losing their willingness to pay debt obligations, Moody’s Investors Service said.

“The looming defaults by Stockton and San Bernardino raise the possibility that distressed municipalities—in California and, perhaps, elsewhere—will begin to view debt service as a discretionary budget item, and that defaults will increase,” Anne Van Praagh, a Moody’s managing director, said in a published report.

San Bernardino became the latest municipality in California to seek court protection from creditors after the city council voted for an emergency bankruptcy July 10. It joined Stockton, an agricultural center of 292,000 east of San Francisco, and Mammoth Lakes, a mountain resort town of 8,200, by entering bankruptcy proceedings. Stockton is the largest U.S. city to take the step.

More Defaults Predicted

Meredith Whitney, who runs her own financial advisory firm, predicted in December 2010 that between 50 and 100 counties, cities, and towns in the United States would have “significant” municipal bond defaults starting in 2011, totaling “hundreds of billions” of dollars in losses.

Though the 2011 fallout didn’t occur as she projected, the recent filings could show Whitney simply might have been early in her projection.

“There will be more [municipal bankruptcies], no doubt about it,” said Benjamin Y. Clark, assistant professor of public budgeting, finance, and administration at the Maxine Goodman Levin College of Urban Affairs at Cleveland State University.

Government Causes Economic Pain

Clark continued, “One thing that seems to get lost in the national debate about the economy is that a good portion of the job losses or lack of growth we are seeing right now is coming from government.

“The American Recovery and Reinvestment Act helped keep a whole heck of a lot of states and local governments afloat for a few years,” he said. “But ARRA has been almost completely wound down now. States, which were also supporting a lot of local governments through intergovernmental grants [often sourced from federal grants, including ARRA] are pulling back.”

He added, “What this means for local governments is that they are now more reliant on their own source revenues. With property values declining, those own source revenues are going to fall—and local governments across the U.S. are very heavily reliant on property tax revenues, though the specific mix varies from state to state.”

Pension Costs Keep Growing

Pension obligations also have continued to grow while the investments designed to cover those obligations have performed far worse than expected, said Tom Estes, CEO of Covered Bridge Financial Partners, a company that helps restructure the distressed debt of institutions.

“Municipalities don’t have a lot of backstops,” Estes said, explaining that private firms have some financial options not available to municipalities.

“Municipalities can’t fall back on the federal government. The largest single liability that municipalities have is the pension fund liability. These costs are growing every year.”

For example, the State of California recently reported an annualized return of 1.5 percent for its pension investments. To cover the obligations, the return needs to be closer to 7.5 percent, according to Estes.

Municipalities must begin to bring pension promises in line with investment realities and make investments that are in line with long-term pension obligations, Estes said. That means making longer-term investments that tend to have lower returns. So any future pension offers have to take these returns into account.

Estes added he agrees with Whitney that there are many more municipal defaults on the horizon.

Though the federal government has stayed out of the municipal pension issue, there have been some funds that could have been put toward it, according to Estes.

“Rather than putting $900 million into solar panels, the federal government should have put the $900 million into the pension funds,” he said.

IN OTHER WORDS . . .

“A disastrous drought that has sent corn prices skyrocketing also brings into sharp focus the man-made disaster that is Washington’s ethanol mandate.

“More than 1,300 counties in 31 states have been designated drought disaster areas, writes Jason Hill, a professor in the department of byproducts and biosystems engineering at the University of Minnesota. And despite what was anticipated to be a bumper corn crop, yields this year are projected to be the lowest in the past 20 years.

“Nevertheless, the federal Renewable Fuel Standard remains unchanged, mandating that 13.2 billion gallons of corn ethanol be produced in 2012 regardless of the corn harvest.

“On average, about a third of the crop goes to the production of ethanol, an energy-wasting fuel that most people wouldn’t buy if government didn’t force it on them. This year, as livestock farmers face higher prices for corn-based feed, the ethanol mandate will consume almost half of the corn yield, Professor Hill writes.

“So, every other row of harvested corn will end up in a gas tank, ‘enough fuel to supply less than 5 percent of our national demand for gasoline,’ says Hill.

“President Obama’s solution is for the government to buy millions of dollars of meat, which livestock farmers say is of little help this year or next.

“The crop-wasting ethanol mandate should be waived—permanently.”

— Pittsburgh Tribune-Review editorial, August 19, 2012

“Rather than putting $900 million into solar panels, the federal government should have put the $900 million into the pension funds.”

TOM ESTES, CEO
COVERED BRIDGE FINANCIAL PARTNERS

Phelps: (spenterprises@wowway.com) writes from South Holland, Illinois.
By Jeffrey V. McKinley

France in August imposed a 0.2 percent transaction tax on certain stock purchases. Leaders in Germany, Italy, and Spain are pushing for a similar tax.

The move to implement taxes on financial transactions hasn’t gone unnoticed in the United States. Sen. Tom Harkin (D-IA) and Rep. Peter DeFazio (D-OR) in November 2011 introduced to their respective chambers of Congress the Wall Street Trading and Speculators Act, which calls for a 0.03 percent tax on trading transactions.

‘Big Enough to Wipe Out Transactions’

While a tax at this rate has been described as tiny, it is far from it. According to a new Cato Institute study, a tax of 0.02 percent would be “big enough to wipe out all S&P 500 index futures transactions.”

The study faults the models used by the Congressional Budget Office to score the bill for underestimating the effects on trading volume and overestimating potential tax revenues. The study noted the CBO models assume there are no suitable international substitutes for financial contracts traded in the United States.

Anyone who is familiar with today’s trading platforms knows trading on an exchange elsewhere in the world is only a mouse click away, and the range of products offered on exchanges outside of the United States has grown dramatically in recent years.

Moreover, the Harkin-DeFazio bill is not solely a method to raise tax revenue. The bill aims to reduce short-term speculative trading that its proponents believe causes unnecessary market volatility. The proposed tax would, in some instances, lead to a 6,000 percent increase in transaction costs for exchange members. Transaction costs are already their biggest expense.

Benefits of Short-Term Trades

Some advocates of short-term speculative trading warn a tax could actually increase market volatility by reducing trading and making capital markets less efficient. This would happen if markets that are dominated by arbitrageurs become too expensive for arbitrage trading.

Arbitrage trading links together related markets on a worldwide basis. This linking of markets—for instance, U.S. Treasury Bonds to German Bunds and Japanese Bonds—adds significant depth and liquidity to the marketplace as it effectively creates one large market as opposed to smaller stand-alone markets.

As one example, if large sell orders are depressing prices in U.S. Treasuries to where Treasuries are becoming out of line with other markets, arbitrage traders would purchase Treasuries while simultaneously selling German Bunds or other related instruments. This would take the downward price pressure off of the Treasury market. If arbitrage trading were curtailed due to a tax, then this vital linking of markets would be lost.

A tax that targets short-term trading is similar to a chemotherapy treatment for cancer. It kills all fast-growing cells indiscriminately, regardless of whether they are harmful. The level of dosage for the market that has been proposed in the form of a tax is most likely high enough to kill the patient—even when there is doubt whether the patient has “cancer.”

Jeffrey V. McKinley (jeffmckinley@gmail.com) is a certified public accountant, Heartland Institute policy advisor, and principal, Senex Solutions LLC.
Pennsylvania Considers Ending Property Taxes

By Mary Petrides Tillotson

Pennsylvania’s legislature is considering a measure that would end school property taxes and instead increase income and sales taxes to raise the $13 billion the state spends on K-12 schools.

“Whenever we’ve tested it, either in a town hall setting or just asking people to sign on to a petition or … scientific polling, it’s been very well received,” said state Sen. Dave Argall (R-Schuylkill), co-sponsor of Senate Bill 1400. “People just hate the school district property tax, and they’re really looking for a replacement.”

The measure would raise the state’s 3.07 percent income tax to 4 percent and make its 3 percent sales tax apply to all retail items and increase it from 6 to 7 percent.

Every state taxes property. Some do not have sales, corporate, or income taxes. Pennsylvania’s property taxes are ninth-highest in the U.S., according to the Tax Foundation, a nonpartisan research organization. Many nearby states have even higher tax burdens, with New Jersey, New York, Ohio, and Maryland ranking among the biggest taxers in the country.

Constituent complaints prompted the bill, Argall said. “They’re afraid they’ll lose their homes because of this property tax, and they just see that it’s incredibly inefficient,” he said.

The state Senate Finance Committee held a public hearing during which Sen. Mike Folmer (R-Lebanon County) said many Pennsylvanians are “renting their properties from school boards rather than owning their properties.”

Pennsylvania has considered similar measures for approximately 30 years.

Disentangle Schools, ZIP Codes?
America has funded schools from property taxes since its inception, said Robert Enlow, president of the Friedman Foundation for Educational Choice.

“In the modern age, we should be thinking of new ways to fund schools,” he said.

Most property taxes connect school financing to houses, instead of to students and school performance, he said.

“Stop thinking about … the value of your home funding education. This isn’t about how much money schools get, it’s about how effectively they’re funded. If I ask you right now, ‘How much money should a school get?’ that answer is going to vary widely,” he said. “My personal opinion is it doesn’t matter what the school gets. It matters what the child gets.”

Root Problem: Spending
Shifting the method of taxing does nothing to stop the cost drivers of government education, said Priya Abraham, senior policy analyst at the Commonwealth Foundation for Public Policy Alternatives.

“If you’re going to create a different method of taxation for public education, we also think you need to put in place taxpayer protection on that to limit spending growth,” she said.

She recommended school choice as an antidote to toxic tax levels.

“Once you inject competition and [a] variety of choices parents can choose from for their kids, that improves standards and efficiency, and tends to decrease costs across the board,” she said.

Several other poor public policies have contributed to Pennsylvania’s $13,000 per-pupil spending, which makes its K-12 system the 11th-most expensive in the U.S., she said.

Pennsylvania’s prevailing wage law requires taxpayers to pay workers a government-mandated wage for government construction projects of at least $25,000. Collective bargaining agreements have inflated costs until they “far exceed what the market wage rate is for exactly the same labor and same scope,” Abraham said.

“On average, that’s inflating construction costs about 51 percent across Pennsylvania,” she said. “It’s difficult for schools to undertake renovations without unnecessarily inflating costs.”

Pensions are also straining school budgets, she said. Moving from a defined-benefit system to a defined-contribution system, more common in the private sector, “would be like getting the politics out of pensions,” she said, and reduce expenses.

Spending Restraint
“T’ve had people point out to me if we don’t control the spending, it doesn’t matter where the money comes from, whether it’s income tax, sales tax, property tax,” Argall said.

Lawmakers closed tax loopholes several years ago—some around 2004 and others around 2011—and put new laws in place “that essentially tell school districts that they cannot spend more than the rate of inflation without putting it on the ballot for voter approval,” he said.

“We’ve seen some data that it has helped to a certain degree,” he said.

Mary Petrides Tillotson (mary.c.tillotson@gmail.com), a former Michigan reporter, now writes from Front Royal, Virginia. This article first appeared in School Reform News and is used with permission.

Commuter Rail Waits for Millions, but Building Plans Continue

Connecticut’s $647 million plan to connect New Haven and Springfield, Massachusetts by rail will move ahead next year despite a $238 million gap in funding.

The system is geared toward providing high-speed commuter rail service. The state Department of Transportation’s plan is to start construction next year and launch service in 2016.

In all, the federal government is expected to pay $221 million and the state $188 million, leaving a funding gap for more than one-third of the project.

The state has no significant funding for the track from Windsor to Springfield or for future rail upgrades and repairs.

The cost estimates don’t include expenses for the final two phases of the five-phase venture. The last two phases involve building stations and making other necessary improvements.

According to the DOT, federal and state funding are guaranteed for phases one and two, and state funding is “available” for phase three.

There are no cost estimates available for phases four and five.

John Bernick, DOT project manager for the New Haven to Springfield line, said Massachusetts is not contributing to Connecticut’s current construction program except for a fiber optic cable that will run from Springfield to New Haven.

— Caitlin Landers, Yankee Institute for Public Policy
Taxi Protectionism in Portland Lands City in Court

By Tim Kelly

Portland, Oregon officials have made it a crime for certain businesspeople to give customers more value for their dollar. Now the city is in federal court trying to defend the constitutionality of their action.

In 2009, Portland passed an ordinance requiring a $50 minimum fare for limousine and sedan rides to or from Portland International Airport. The ordinance imposes a citywide minimum fare that requires limos and sedans to charge at least 35 percent more than what taxis would charge for the same route and imposes a minimum wait time of at least one hour before customers may be picked up.

Two local companies, Towncar.com and Fiesta Limousine, ran afoul of the ordinance when they offered on Groupon.com promotional $32 one-way trips to the airport. The city's Revenue Bureau threatened to suspend their operating permits and impose fines totaling $895,000.

Both companies canceled the promotions and refunded their customers to avoid the penalties. They also decided to take the city to court.

The Institute for Justice, a self-described libertarian public interest law firm, is representing Towncar.com and Fiesta in a federal lawsuit challenging the constitutionality of Portland's limousine and sedan regulations.

"Naked Economic Protectionism"

"These laws amount to nothing more than naked economic protectionism. They are designed to protect the profits of Portland's taxicab companies, and now they are being enforced at everyone else's expense," said Institute for Justice attorney Wesley Hottot, who represents the two plaintiffs. "Portland's minimum-fare law and minimum wait time have nothing to do with protecting the riding public. They have everything to do with protecting the city's taxicab companies from competition and driving up prices for consumers."

"We had 630 Portlanders who bought our Groupon deal," said plaintiff Mike Porter, who runs Towncar.com. "The city responded by threatening to put me out of business for charging my customers too little. How is that good for consumers?"

"Portland has a long history of protecting favored businesses by, in effect, outlawing their competitors. The result has been fewer entrepreneurial opportunities and higher prices for consumers. Hopefully this time the courts will step in to protect both competitors and consumers alike," said Steve Buckstein, senior policy analyst for the Portland-based Cascade Policy Institute.

Similar Actions Elsewhere

A similar case is being fought in Bloomington, Illinois, where a local ordinance is preventing Julie Crowe, a Marine Corps veteran in her 50s, from offering a vehicle-for-hire service.

The Bloomington ordinance requires a person who wants to provide ride services to apply with the city. The city government must hold a hearing where all existing vehicle service operators may say whether they believe a new competitor is necessary.

To no one's surprise, Bloomington's existing operators testified against Crowe's application. Crowe later received a one-sentence rejection notice from the city manager that read, "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."

State Court Challenge

The Liberty Justice Center, the public interest litigation center of the Illinois Policy Institute, has filed a lawsuit on Crowe's behalf in state court.

Jacob Huebert, an associate counsel for the center, said "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' violates the Illinois constitution's guarantee of due process of law. So do the city's hearing procedures, which don't allow an applicant to cross-examine the people who testify against her or to offer rebuttal evidence."

Towncar's, Fiesta's, and Crowe's stories are not unique. According to the Institute for Justice, nine other jurisdictions nationwide have adopted minimum fares for limo and sedan services.

"Nationwide, minimum fares are being pushed by politically powerful taxicab companies at the expense of both limousine companies and the riding public," said IJ attorney Jeanette Petersen. "Most would agree that regulation concerning public safety is reasonable. These laws are all about protecting the profits of privileged companies, not the public. That is not only wrong, it is unconstitutional."

IN OTHER WORDS . . .

"Most people probably have noticed the lackluster economic growth since the nation officially came out of the Great Recession three years ago. It's been hard to miss.

"What some people may not realize is that, according to an analysis by the Associated Press, the nation is experiencing 'the feeblest economic recovery since the Great Depression' of the 1930s.

"We don't like being the bearer of bad news, but if you think economic growth is feeble now, just wait a few months. It could get much worse. ...

"A few months ahead loom higher taxes, nationally and in California. Unless the Bush-era tax cuts are extended past December 31, the economy will reel as Washington drains more badly needed private capital away from people and businesses that could use it best to stimulate economic growth.

"In California, three tax-raising measures sit on the November ballot; if passed, they would increase income taxes, sales taxes, and corporate taxes.

"Add to this an unwillingness in Washington and Sacramento to scale back the scope of government, which perpetuates and even increases the diversion of private wealth to pay regulatory fees and implementation costs. Unless this course is reversed, the only financial help ahead would be enjoyed by government bureaucracies and entitlement recipients."

— Orange County Register editorial, August 16, 2012

Tim Kelly (tkelly67@comcast.net) is a political cartoonist, policy advisor, and columnist for the Future of Freedom Foundation, and a correspondent for Radio America's Special Investigator.
Occupational Licensing: Another Govt. Obstacle to Earning a Living

By Byron Schlomach

Do you have a love of fabric and furniture and a talent for decorating? In some states, it's tough luck if you want to start a decorating business—unless you have a license. Most states actually have laws limiting the use of the title "interior designer.

It's a result of the growing problem of occupational licensing, which creates obstacles to people working and earning a living in occupations they may enjoy and in which they may excel.

Economic research shows licensing makes services more expensive for consumers and more difficult—often unnecessarily so—for people to enter a new profession. That's no small matter in these years of persistent high unemployment.

Estimates of the number of licensed occupations in the states vary depending on who does the counting. Washington, at 32, licenses the fewest occupations. California, at 285, licenses the most. This interference in liberty is why the Goldwater Institute recently published "Six Reforms to Occupational Licensing Laws to Increase Jobs and Lower Costs."

The report shows occupational licensing has a long pedigree, with its modern roots going back to the medieval guilds that were formed specifically to limit competition with local artisans.

"[A]dvocates for licensing claim the laws are necessary for public health and safety. But the public safety argument is undermined by states' occupational licensing of professions such as librarians, craft artists, and animal caretakers. It's further undermined by the fact that new licensing laws almost always exempt current practitioners, including bad actors, from obtaining licenses."

When cosmetology boards harass African hair braiders or shut down fish pedicure services where the fish cannot spread infection because the service providers never invade live skin, the boards betray their real mission: to limit competition.

The Goldwater report makes the case that professional licensing reduces the availability of services, raising consumers' costs by more than 2 percent. This results in earnings premiums of up to 10 percent for licensed professions while reducing the number of people who can afford licensed services, such as medical care. Economists say the loss of economic value due to licensing is $35 billion to $40 billion per year in the United States.

Erecting Roadblocks

Professional licensing also blocks opportunity for those who cannot afford the time (1,450 hours of experience for cosmetology in Arizona) and money to meet educational and training requirements that are often needless. Licensing discourages innovators from entering licensed fields and encourages even more licensing because people in related professions sometimes seek licensing because they fear prosecution for practicing without a license.

Because of occupational licensing, Remote Area Medical, a private charitable health service, cannot serve low-income individuals in most states.

According to a study by the Canadian government, 80 to 90 percent of work performed by general dentists could be performed by high school graduates with less than two years of postsecondary school training. A recent Institute for Justice study highlights licensing of low-income occupations, pointing out how this blocks economic opportunity. The state of Arizona, currently with the 11th lowest per-capita personal income level in the nation, is the worst offender among the states.

Recommended Reforms

The Goldwater report suggests six policies to contain occupational licensing and then roll it back.

First, no legislative committee should consider a new licensing requirement until it has been vetted to identify a real need. Likely effects of the requirement on consumers and the economy should be considered.

Second, each existing license requirement should be vetted and repealed if it does not pass muster.

Third, licensing boards should have only a minority of their membership made up of individuals practicing the licensed profession.

Fourth, market forces should discipline professional quality. A system of private certification whereby a false claim of certification is prosecuted for fraud could be encouraged.

Fifth, right-to-earn-a-living legislation should be adopted.

Sixth, the scope of practice for paramedics such as dental hygienists, physicians' assistants, and paralegals should be expanded.

The ultimate aim of occupational licensing reform is to expand liberty and economic opportunity.

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Burdensome Treatment of International Income

Corporate tax reform has attracted support from both Republicans and Democrats in Washington, with a mix of proposals that include lowering rates and eliminating loopholes.

To get the biggest bang for the buck, however, any real reform effort should include replacing the nation's "worldwide" tax system with a simpler, more efficient "territorial" system, according to a new analysis from the Tax Foundation.

Beyond imposing the highest top marginal tax rate in the developed world, the U.S. tax system's treatment of international business income is exceptionally burdensome. It inflicts tremendous compliance costs, creates enormous distortions of economic activity, awards tax preferences to politically connected industries, and traps huge amounts of U.S. corporate profits overseas. To add insult to injury, this punitive tax system captures a meager stream of tax revenue.

Many of these problems are created or exacerbated by the U.S. government's worldwide approach to collecting corporate taxes, in which all income of U.S.-headquartered companies is subject to tax, including income earned abroad. Under the alternate territorial approach, a country collects tax only on income earned within its borders.

— Steve Stanek

INTERNET INFO


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The American people have sent a powerful free-market message to Washington and state capitols across the nation. But election victories are not enough. We need to equip our new leaders with the free-market solutions they need to restore our freedom and prosperity. To support this historic effort, The Heartland Institute is making available free copies of its public policy newspapers and other publications, both on-line at the Web sites identified below and in print editions upon request. To request free copies of these publications, call 312/377-4000 and ask for Cheryl Parker.

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