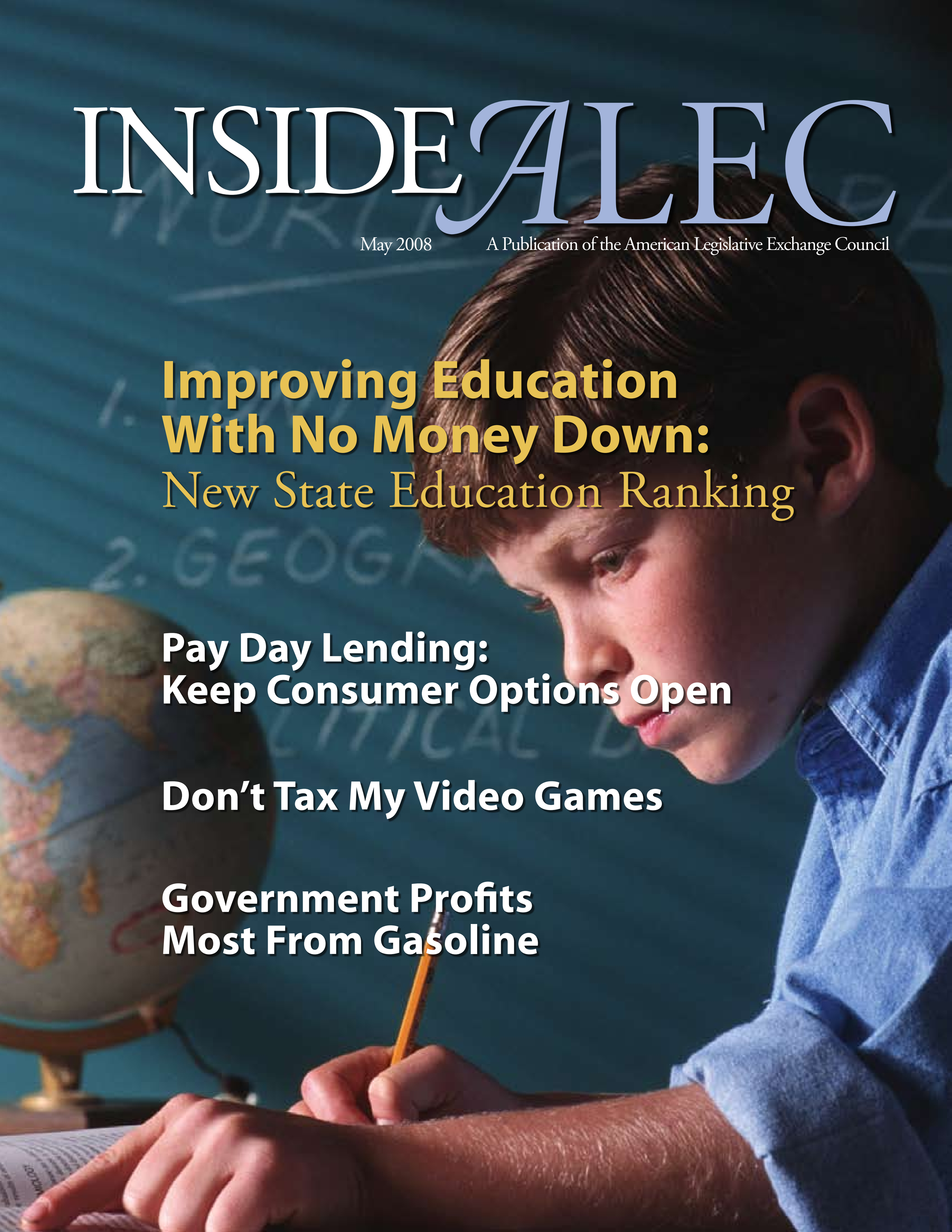

INSIDE ALEC
May 2008
A Publication of the American Legislative Exchange Council
Improving Education
With No Money Down:
New State Education Ranking
Pay Day Lending:
Keep Consumer Options Open
Don't Tax My Video Games
Government Profits
Most From Gasoline

Chairman's Column

ALEC's Annual Meeting in Chicago

By Arkansas State Sen. Steve Faris, Senate Majority Whip

This year marks the American Legislative Exchange Council's 35th Anniversary, and it is right that ALEC's most prestigious event, the Annual Meeting, be held in its birthplace, Chicago. It was here that a small group of state legislators and conservative policy advocates met to implement a vision: A nonpartisan membership association for state lawmakers who shared a common belief in limited government, free markets, federalism, and individual liberty.

Among these individuals was Illinois State Representative Henry Hyde, Lou Barnett, a veteran of then-governor Ronald Reagan's 1968 Presidential campaign, and Mark Rhoads, who was later elected to the Illinois State Senate. Their vision and initiative resulted in the creation of a voluntary membership association for people who believed that government closest to the people was fundamentally more effective, more just, and a better guarantor of freedom than the distant, bloated federal government in Washington, D.C.

Many others were involved in ALEC's early days including Paul Weyrich, Robert Kasten and Tommy Thompson of Wisconsin; John Engler of Michigan; Terry Branstad of Iowa, and John Kasich of Ohio, as well as Senators James Buckley of New York and Jesse Helms of North Carolina, and Congressmen Phil Crane of Illinois and Jack Kemp of New York. I am pleased to say that some of these early founders of ALEC will be with us in Chicago to celebrate. We will also have a special tribute to Henry Hyde who passed away late last year.

The Annual Meeting agenda will consist of the many excellent workshops and plenary sessions graciously sponsored by some of our valued private-sector members, outstanding speakers, and many new model bills from our Task Forces.

Chicago offers countless resources and opportunities for state nights in addition to ALEC's own receptions and hospitality suites. The host hotel, the Sheraton Chicago Hotel & Towers, is ideally located in the heart of downtown Chicago. Overlooking the Chicago River, the hotel is within walking distance of the Navy Pier, Magnificent Mile, Millennium Park, the Loop business district, the Art Institute, and more.

I am honored to be ALEC's National Chairman during this special anniversary year. The Chicago Annual Meeting promises to be an event you don't want to miss. I hope to see all of you there.

Please check inside this issue of Inside ALEC for more information on the Annual Meeting and check our Web site (www.alec.org) for updates and registration information.

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Exhibiting or advertising at an ALEC event is a great way to promote your company to members of both the private and public sector. If you are interested in exhibiting or advertising at an ALEC meeting, please contact Rob Pallace at 202-466-3800 or email him at exhibits@alec.org.

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ALEC Calendar

May 16-17	Spring Task Force Summit	Hot Springs, AR
July 30-Aug. 2	Annual Meeting	Chicago, IL
December 4-6	States & Nation Policy Summit	Washington, D.C.

Time for a TV and Video Game Tax Revolt

By Seth Cooper

A growing trend in legislation could soon require consumers to pay new taxes for watching TV and playing video games. The idea, which has appeared in few states so far, is to tax those forms of personal entertainment to pay for government social projects. In Wisconsin, for instance, Senate Bill 401 would have created a special video game and console tax to fund juvenile delinquency improvement programs. New Mexico's House Bill 583 would have imposed a TV and video game tax to fund government parks programs. And in Maryland, video game arcades narrowly avoided new taxes.

TV and video games make for tempting targets to elected officials, for at least two reasons. First, they make for big money. Americans love their video games, and these entertainment habits translate into enormous marketplace revenues. Therefore, it should hardly come as a surprise that politicians are looking to take a bigger chunk of TV and video game sales.

Second, there is the popular conception that too much television and video gaming can pose potential health issues for some people. Tax-hungry politicians know this, too. They can invoke the cause of public health for establishing these new hi-tech fat taxes.

These TV and video game tax proposals are in fact arbitrary. Lots of different kinds of consumer products generate high sales revenues. To pick and choose among such products encourages companies to hurt their competitors by wooing politicians and regulators for special privileges and exemptions in the tax code. That only hurts taxpaying consumers.

More disturbing is the social engineering bent to the targeted taxation of these technologies. Taxes of this sort all but presuppose that television and video games are harmful or corrupting. But that is the wrong approach to legislation and taxation. Like all technology, TV and video games are neither inherently good nor bad. Choices that people make about how to use technology are the true stuff of tech ethics.

As with any other kind of personal recreation or education, individual choice and parental choice (for the upbringing of children) are our best hopes for furthering responsible use of TV and video games. Taxes designed to coerce people into changing their behavior slowly erode our sense of rights and responsibilities, redirecting us toward government as our presumptive guide for daily living.

TV and video game taxes also pose serious legal problems. The small but growing numbers of federal and state court rulings on video game content regulations have uniformly struck down such laws as violations of constitutional free speech protections. Taxes specifically targeting the speech media of TV and video games raise similar freedom of speech concerns. However, TV viewers and video gamers should oppose selective taxation of those technologies at the outset rather than pin all hopes on the courts.

Economic prosperity in TV and video game markets, robust consumer choice in personal entertainment and infotainment, and freedom of speech all weigh against selective TV and video game taxes. States should say no to these taxes. To the fullest extent possible, all consumer products should be taxed equally. Similarly, individuals and parents should remain unencumbered in deciding for themselves how to spend their time. So the next time you go to the video game store, be mindful of who might be trying to get their hands on your controller and your wallet.

Seth Cooper is the Director of the Telecommunications and Information Technology Task Force at the American Legislative Exchange Council.

Green Solutions Act Turns Up the Heat on Minnesota Consumers

By Joshua Culling

Minnesota state lawmakers have recently proposed legislation to try to reduce greenhouse gas emissions, a purported cause of global warming. However, if enacted, this scheme will only succeed in burning a sizeable hole in the wallets of thousands of Minnesotans.

The Green Solutions Act of 2008 would enact a cap and trade system to limit industries' overall greenhouse gas emissions, such as carbon dioxide. The plan then auctions permits that allow corporations to release a certain amount of greenhouse gases into the atmosphere.

In theory, the system creates an incentive to reduce emissions and increase energy efficiency: Corporations are allowed to buy and sell permits from one another, creating a market in which a low-emissions company can sell its excess permits to high-emitters for profit. In practice, however, cap and trade has proved to be a complete flop—and an expensive one at that.

The European Union Emissions Trading Scheme (EU ETS) is the only cap and trade system in operation designed to cut greenhouse gas emissions. But under the EU ETS, participating countries' carbon dioxide emissions are actually increasing. According to the U.S. Energy Information Administration, in 2006, carbon dioxide emissions increased 0.3 percent in Europe, while they fell 1.8 percent in the United States, which has no such system in place. Not only is cap and trade ineffective, but the increased costs it brings to consumers are substantial.

German homeowners are paying 25 percent more for electricity than they did before the EU ETS was implemented. Importantly, this is the entire point of a cap and trade system—increase prices to discourage energy use. However, with gas prices in the Twin Cities at $3.12 per gallon and rising, is it really in Minnesota's best interest to amplify this economic burden on its consumers?

The economic sector most prominently affected by these rising costs will be the job market. For example, EU industry commissioner Guenter Verheugen argued to exempt energy-intensive industrial sectors from EU ETS regulations, "so that they stay in Europe and do not have to stop their development plans." Earlier, the Commission of the European Communities advocated giving free emissions allowances to Europe's metal and paper industries, claiming that "it is not in the interest of the European Union that in the future production moves to countries with less strict emissions limits." They are absolutely right. As greenhouse gas caps are imposed, industries will leave and so will jobs.

A recent study on similar legislation introduced in the U.S. Senate estimates that a cap and trade system will result in a loss of between 56,000 and 75,000 jobs in Minnesota by 2030, in addition to a per capita decrease in household income between $4,500 and $8,200. These decreases will hit the poor especially hard because they spend a greater portion of their income on energy than those with higher incomes.

At least some legislators in Minnesota understand the negative impacts of this plan. "The three latest studies on carbon emissions have reached strong negative conclusions about the effectiveness of cap and trade," said State Senator Mike Jungbauer (R-48). "Senate Bill 2818 and House Bill 3195 are purely symbolic pieces of legislation that offer negligible effects on climate change while imposing significant costs to Minnesotans."

Oil prices recently peaked at $111 a barrel, adding more pain at the pump for millions of Americans, in addition to the dent in their household budgets. The Green Solutions Act of 2008 will further increase energy prices, hurt businesses, and kill jobs in the vain hope of curbing global warming. If the legislature allows that to happen, Minnesota will really feel the heat.

Joshua Culling is a legislative assistant to the Natural Resources Task Force for the American Legislative Exchange Council.

I'd Gladly Pay You Tuesday for a Payday Loan Today

By Michael Hough

Several states, including Virginia, Arizona, California, Colorado, Illinois, Kentucky, New Hampshire, Ohio, and South Carolina, are considering legislation to cap the annual interest rate that can be charged on small consumer loans – typically called "payday loans." The proposed legislation will effectively end payday lending in the state and financially harm many of the residents of these states by denying them access to credit. This "nanny state" legislation deprives all consumers the freedom to take out payday loans for the sake of protecting a few consumers who made irresponsible financial decisions.

Across the country thousands of Americans, with different levels of income, are taking out short-term loans, which range from $100-$500. In order to receive the loan, customers agree to pay a fee of $15 for every $100 borrowed. Typically 20 percent of the cost of the $15 fee is to cover the high number of payday loan defaults.

Critics of payday loans want to limit the fee that can be charged to a maximum annual rate of 36 percent. The problem with this is lenders would only be allowed to charge $1.36 on a two-week loan of $100. This would not even be enough to pay for all the delinquent loans, let alone enough to cover staff time to process the loan. This would in-effect ban payday lending.

Many of the individuals who receive these loans have poor credit histories and do not have access to traditional sources of credit like bank loans and credit cards. They often take these loans out to help them get through temporary tough times. Many times payday loans are used to cover utility bills and unplanned medical expenses. Without access to payday loans many consumers are left with several worse alternatives like bouncing checks, not paying bills, and worst of all, filing for bankruptcy.

Critics of payday lending often fail to mention that each of these alternatives have repercussions that can be far worse financially than the interest charged by payday lenders. Banks will typically charge a bounced check fee of $30 or more, and if you fail to pay your utility bills the cost to reconnect electric, gas and or phone service ranges from $12 to $80 in most states. Clearly for many consumers payday loans present a preferable and less expensive option.

In fact, a report by the Federal Reserve Bank of New York found that in states where payday lending was banned there was an increase in the number of bounced checks and declared bankruptcies. The year after Georgia banned pay-day lending, consumers bounced an additional 1.2 million checks at a cost of $36 million in additional overdraft and bank penalties.

In addition to causing their citizens financial harm, legislators who advocate banning payday lending are depriving their citizens of the right to make their own financial choices. Former Democratic presidential candidate and U.S. Senator George McGovern described the attempt to outlaw payday lending as "economic paternalism." In defense of payday lending, Sen. McGovern wrote, "The nature of freedom of choice is that some people will misuse their responsibility and hurt themselves in the process. We should do our best to educate them, but without diminishing choice for everyone."

This misguided legislation assumes that consumers are unable to make appropriate financial decisions without the state intervening on their behalf with heavy-handed government regulations. Lawmakers should reject this legislation because it will financially hurt citizens and deprive them of the freedom to take out a payday loan if they so choose.

Michael Hough is the Director of the Commerce, Insurance & Economic Development Task Force at the American Legislative Exchange Council.

Big Government Profits Most From Gasoline

By Jonathan Williams

Congress has, once again, summoned the CEOs of the major oil companies to come and defend their livelihood, demanding that they explain how the free market allows "Big Oil" to make "unseemly" profits from the sale of gasoline.

High gas prices are not new, but unfortunately they bring out all sorts of political demagoguery in the never-ending war against corporate profits. Whenever high gasoline prices are in the headlines, various commentators and politicians immediately jump on the "price gouging" bandwagon, while others renew calls for a "windfall profits tax" on energy companies.

The nation experimented with windfall profits taxes in the 1980s, and it proved to be economically devastating. That windfall profits tax failed to raise even a fraction of the revenue forecasted and crippled the production of the domestic oil industry.

In all the crusading against oil profits, one very important fact is being neglected: The biggest winner from high gasoline prices is none other than government. For starters, American motorists pay an average of 47 cents per gallon in state and federal gasoline taxes. Truck drivers and other diesel users get hit worse and pay more than 53 cents per gallon on average.

The government collects billions more from energy companies in corporate income taxes, off-shore royalties, severance taxes, property taxes, payroll taxes… the list goes on.

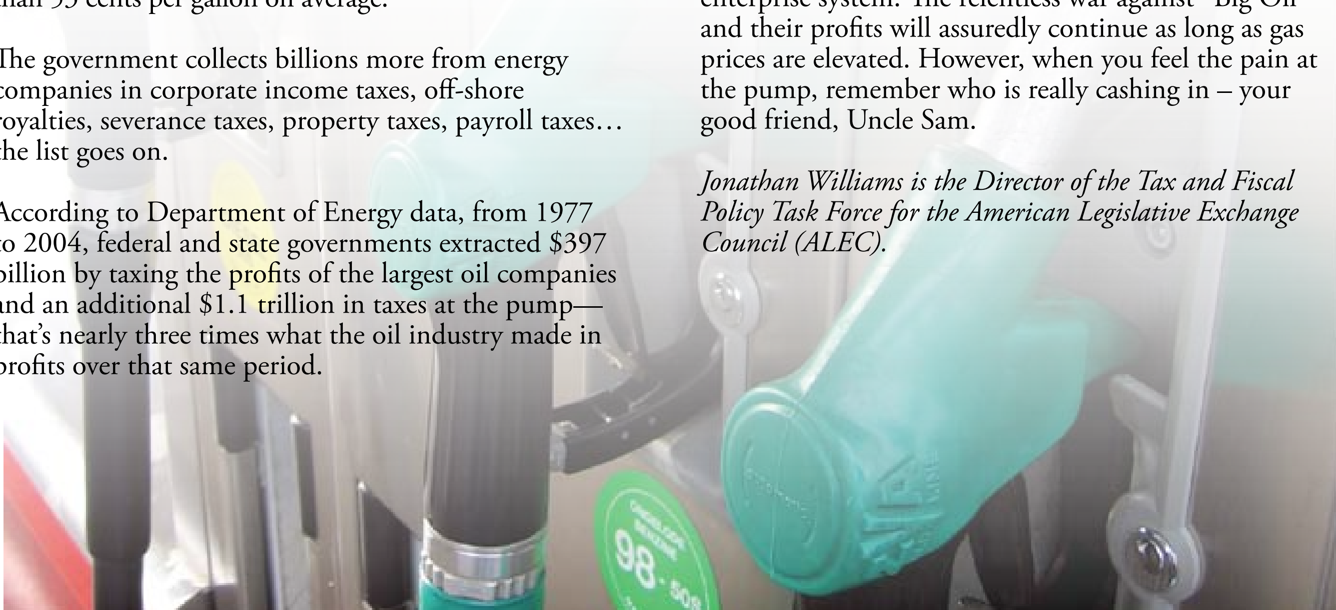
According to Department of Energy data, from 1977 to 2004, federal and state governments extracted $397 billion by taxing the profits of the largest oil companies and an additional $1.1 trillion in taxes at the pump—that's nearly three times what the oil industry made in profits over that same period.

While many in Congress are touting populist themes and continuing their calls for the resurrection of a 1980's style windfall profits tax, it is important to note that America's energy companies are already providing a "windfall" of tax revenue. Various proposals aimed at the oil industry have nothing to do with "fairness" or righting a so-called wrong. They are simply attempts by the government to abscond with additional revenue. Taking aim at profits also sets an extremely dangerous example by targeting a certain industry based on its level of success.

Of course, no one enjoys paying over $3 per gallon to fill up, but gasoline prices will always be determined by the supply and demand for oil in the world market. Unfortunately, while talking about supply and demand will earn you an "A" in economics class, it usually gets you an "F" in the political arena. The truth is that the oil industry often serves as a convenient target for politicians eager to deflect blame for high gasoline prices. How else can you explain the renewed interest in a windfall profits tax to punish oil companies for their profitability?

It is a shame to think profit has become a dirty word in a nation that built its industrial might through the free enterprise system. The relentless war against "Big Oil" and their profits will assuredly continue as long as gas prices are elevated. However, when you feel the pain at the pump, remember who is really cashing in – your good friend, Uncle Sam.

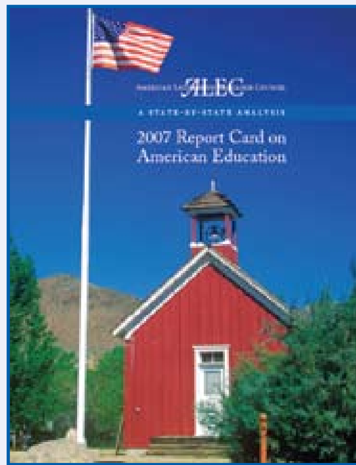
Jonathan Williams is the Director of the Tax and Fiscal Policy Task Force for the American Legislative Exchange Council (ALEC).



Zero Due at Signing:
Improving Education for No Money Down

By Matt Warner

The marketing slogan "zero due at signing" is often used to entice cash-poor buyers who are eager to purchase a big ticket item, like a new car, without many upfront costs. With state budget shortfall estimates totaling nearly $39 billion, many lawmakers can probably sympathize with cash-poor buyers this year. In a climate of fiscal belt-tightening, shiny new state-sponsored programs may never leave the showroom.



Over the past two decades, improving education usually meant big dollar signs. Rolls Royce reforms, like class size reduction and pre-kindergarten initiatives, have cruised through legislatures with the promise of improving student outcomes. However, under current budget constraints, would-be champions of such popular reforms must feel frustrated, and will have to park their plans or find some way to defer the costs.

There is an upside to a slow down in these pricey programs. States will at least be able to avoid the buyers' remorse they must feel after spending billions in the past two decades on ineffective education initiatives. The American Legislative Exchange Council's 14th annual Report Card on American Education spotlights these state efforts to buy their way out of K-12 underperformance. The report shows how state spending on education has increased 54 percent in constant dollars since the mid-1980s. The result of this investment is an overall class size reduction of 15 percent but little change in achievement outcomes. A whopping 71 percent of eighth-graders are still performing below proficiency in reading and 69 percent are performing below proficiency in math.

Recent U.S. comparisons with other nations are sobering. In 2006, the Programme for International Student Assessment tested 15 year-olds in 57 countries for academic skills and knowledge. The United States ranked 29th in science (behind countries like Latvia, Croatia and Slovenia) and 32nd in math (behind countries like Hungary, Lithuania and Azerbaijan). In both assessments, the average American score was below the international average. The only category in which the United States led the pack was in spending. Only Switzerland spends more per student than we do, even after adjusting for purchasing power.

Fortunately, there are better ways to improve education than writing a check. Reforms like school choice, virtual schooling, and alternative teacher certification all improve educational outcomes without breaking the bank. School choice programs are designed to redirect existing expenditures to schools of parents' choosing, public or private, so they cost little or nothing to operate and save millions of dollars in the long-run. One reason for the savings is many programs only allow parents to redirect a portion of what state and local governments are currently spending on the student. Other programs set the maximum at current expenditures or the cost of private school tuition, whichever is less. Every time the tuition is less, that's a cost savings to state and local governments. Since the early 1990s, school choice programs have saved close to half a billion dollars for the state and local governments that administer them.

Florida's school choice program for special needs students, for example, has saved $139 million since 1999 when the program began. Parents involved with the program report a 93 percent rate of satisfaction with their new schools, compared to 33 percent satisfaction with public schools. Parent satisfaction isn't the only encouraging result of school choice programs. Research shows kids get better test scores, attend more integrated schools and report less bullying. These results are driving more states towards adopting new programs. Georgia's legislature, after passing a special needs program in 2007, has returned this year to adopt a program that encourages corporations to support kids in need of better school choices. A review of the law reveals a projected government savings of $6,600 per participating student. It's a win-win for Georgia's kids and taxpayers.
Virtual school programs represent another smart way

to better meet the education needs of students without adding to the education budget. A year-long study of virtual school funding by Augenblick, Palaich and Associates concluded that virtual schools represent no additional costs per pupil than current expenditures in regular brick-and-mortar schools. The researchers also determined that virtual schools "increase access to quality courses and educational opportunities, making it possible for all students to receive high quality courses of instruction better personalized to their needs" adding that "[t]his increased access to rigorous courses is an important component in addressing educational reform for education policy makers." Today, roughly half the states offer some form of virtual education.

Most people can think of at least one teacher that had a major impact on their education. Indeed, the quality of teachers in today's classrooms has a significant impact on educational outcomes. Unfortunately, the current teacher certification system in many states is in need of improvement. A 2007 review of state policies governing routes to teaching by the National Council on Teacher Quality concluded that they are outdated and inflexible; use false proxies as measures of teacher quality; largely ignore content preparation; and are not geared toward increasing the quality and quantity of math and science teachers.

The solution to these findings is to advance new policies that broaden the routes to teaching and take advantage of qualified professionals interested in a mid-career change. Alternative certification programs that emphasize content knowledge and licensure testing supplement the supply of highly qualified teachers available to our schools.

One such program, Passport to Teaching, attracts more teachers to the classroom without sacrificing rigor and quality. The program only graduates 40 percent of its candidates, demonstrating a selectivity that promises the right caliber of instructors. A September 2007 report from McKinsey and Company entitled "How the World's Best Performing School Systems Come Out on Top" concluded that while not all top performing systems are the same, there are several instructive similarities. One similarity is their ability to attract high quality teachers "by making entry to teacher training highly selective" and "by creating alternative pathways for experienced hires." On this topic, one South Korean policymaker surveyed for the report quipped, "The quality of an education system cannot exceed the quality of its teachers."

Seven states (New Hampshire, Pennsylvania, Florida, Mississippi, Idaho, South Carolina, and Utah) have already begun using Passport to Teaching, benefiting not only from an increase in new, high-quality teachers but in higher retention rates as well. Ninety-three percent of program graduates remain teaching after the first year compared to 84 percent nationwide. Even more compelling, the program doesn't cost a lot of money. In fact, there is no fiscal impact on state or local budgets because program fees are paid for by candidates.

For each state, improving education is a priority. Whether facing a budget shortfall or not, states should pursue better, not more expensive, education. The world's top performing school systems know this already. States that restrict parents' school choices, prohibit or frustrate virtual education or hold tight to antiquated methods of teacher recruitment and training will be stuck by the side of the road watching other states and nations pass them by. This year states ought to take a lesson from the world's top performers and take some low-cost, high output reforms for a test drive.

Matt Warner is the Director of ALEC's Education Task Force.

ALEC
American Legislative Exchange Council

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Task Force News

NATURAL RESOURCES TASK FORCE SCORES MAJOR SUCCESS

On April 2, 2007, the Supreme Court issued its decision in Massachusetts v. EPA. In the case the EPA announced that it had discovered that the Clean Air Act gave EPA the authority to regulate carbon dioxide as a pollutant.

As a result, environmental groups, along with their allies in Congress and inside EPA itself, started putting pressure on EPA to quickly find that carbon dioxide "endangers public health and welfare" under the Clean Air Act. This would have quickly led to ill-conceived carbon dioxide regulations that Congress had never approved or debated. The structure of the Clean Air Act would lead to absurd results, such as requiring Peoria, IL, to reduce global carbon dioxide levels, which any single city or state is powerless to do.

In late 2007, EPA Administrator Johnson stated that by the end of the year EPA would have a finding concerning carbon dioxide. At the time it looked like EPA would support the notion that carbon dioxide endangers public health and welfare, thus triggering the complex and onerous regulatory requirements of the Clean Air Act.

A number of groups, including ALEC, worked hard make sure the EPA understood the ramifications of its decision. At the 2007 States and Nation Policy Summit, the Natural Resources Task Force passed a resolution in opposition to EPA's potential regulation of greenhouse gases through the Clean Air Act. We argued that Massachusetts v. EPA did not compel an "endangerment finding," that the science was lacking as to finding "harm," and that the Clean Air Act is ill-equipped to deal with this issue. The end result would have been economically devastating and yet environmentally ineffective.

We are gratified that Administrator Johnson has considered the input from ALEC and other organizations and instead of issuing a finding of harm, he announced that he will issue an Advanced Notice of Proposed Rulemaking. This allows groups like ALEC and our members to comment and provide EPA with information. EPA will be able to make a more informed decision. This is critically important with an issue as complex and economically impacting as the regulation of carbon dioxide.

The next step will be to provide comments to EPA. Once EPA provides the actual official announcement of the rulemaking, ALEC will send out more information. We hope you will take the time to comment. ALEC's members have been instrumental so far in helping EPA do the right thing and take comments. We hope you will stay engaged on this issue of critical importance for our economy and way of life.

EDUCATION

The Education Task Force will make special needs education part of its focus at the Spring Task Force Summit and will convene the Special Needs subcommittee to develop policies to address the over referral of students into special needs education. The Task Force will also review the progress of ALEC's Special Needs Scholarship Program Act.

State Ombudsmen Protect Private Property Rights:

Utah leads the way

By Leonard C. Gilroy, AICP

Private property rights have become one of the more prominent public policy concerns at the state level in recent years in the wake of the U.S. Supreme Court's 2005 Kelo vs. New London decision. Kelo gave local governments a green light to seize private homes and businesses for the sole purpose of generating higher tax revenues through redevelopment. While on the surface, this decision appeared to be a significant defeat to advocates for stronger protection of private property rights, the national Kelo backlash prompted legislation, constitutional amendments, and/or ballot measures in over 40 states to restrict the use of eminent domain to varying degrees.

Unfortunately, the Kelo variety of eminent domain abuse is just one of many different ways in which private property rights are routinely threatened by government action. Land use regulations, development restrictions, and exactions are just some of the other means through which property rights may be infringed upon. Hence, state legislators should consider complimentary, alternative approaches to safeguard the rights of private property owners. As the state of Utah has shown, the establishment of a state property rights ombudsman can be a powerful and effective means of protecting private property rights.

In Utah, the property rights ombudsman (established in Utah Code Title 13, Chapter 43) is appointed to receive and investigate complaints made by individuals against government property rights abuses and to achieve equitable settlements. Craig Call, Utah's first such ombudsman explained in a 2004 speech that, "my job […] is to help property owners understand and protect their constitutional property rights […] and avoid unconstitutional taking of private property without just compensation and then resolve property rights issues fairly in accordance with existing law and without expensive and time consuming litigation."

The ombudsman has several means available to try and resolve property rights disputes. The first and simplest is conciliation—calling local or state officials to discuss a potential dispute and trying to find an objective resolution. Next is mediation; the ombudsman can meet with the parties to assist them in evaluating relevant laws and facts to reach a consensus. The ombudsman can also provide an advisory legal opinion to resolve a dispute in accordance with prevailing law. Finally, the ombudsman has the discretion to order arbitration at the request of the property owner and require the government entity to participate.

While the combination of these approaches may not prevent a property rights dispute from ending up in litigation, it provides several alternative methods of dispute resolution that have significantly diminished the likelihood of litigation and provided better outcomes for property owners (such as more favorable financial settlements in condemnation cases).

And it is important to note that Utah's ombudsman is able to intervene in a wide variety of property rights and "takings" disputes—such as local land use issues involving exactions and regulatory takings—not just situations dealing narrowly with the use of eminent domain. In fact, some local ordinances with significant property rights implications have been modified or shelved altogether after intervention from the ombudsman's office.

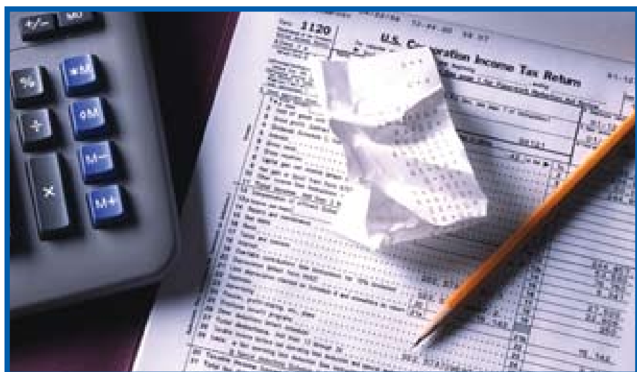
The concept of a property rights ombudsman is not new to ALEC. In fact, ALEC adopted model property rights ombudsman legislation in the mid-1990s. However, the model is not as far reaching as Utah's current legislation, and private property rights are now on the policy radar in a much more prominent way than they were just a decade ago. Prior to Kelo, average citizens underestimated the power of government to trample on property rights. Today, property owners and citizens are more aware than ever of the need to protect their property rights from the expanding reach of government.

For ALEC's legislative members, proposing the establishment of state-level ombudsmen is an idea worth revisiting. It is time to dust off ALEC's existing model and consider ways to update and modernize it, using Utah's successful implementation as guidance. As evidenced by the overwhelming bipartisan, cross-cultural support for Kelo reforms nationwide, it is clear that a majority of citizens will eagerly embrace new solutions to protect their property rights and make government more fair and accountable in the process.

Leonard Gilroy is the Director of Government Reform at Reason Foundation, a nonprofit think tank advancing free minds and free markets. Gilroy, a certified urban planner (AICP), researches privatization, government reform, transportation, and urban policy issues.

High Business Taxes are Hurting America

By Theodore Lafferty



In the 1980s, the United States led the way in cutting corporate tax rates, a move which helped to spur the economic growth the country enjoyed over the next two decades. The stock market boomed and America became a magnet for foreign investment while the economies of most European nations continued to suffer from high levels of corporate taxation.

In the years that followed, most of Europe took note of America's success in creating a more business friendly tax environment, and lowered their own tax rates in response. Since the Reagan days, nearly every state in Europe has reduced its corporate tax rates, some even to levels below those of the United States. This has been the case even in high-tax, welfare states, once seen as particularly unfriendly to business. The EU has, on average, now surpassed America in business tax competitiveness with a corporate tax rate that now stands at just 26 percent.

Today, rather than leading the world in competitive tax rates, America has fallen far behind virtually every other industrialized nation. In fact, the United States now holds the dubious honor of imposing one of the highest tax burdens on businesses among all developed nations. Federal corporate tax rates, combined with average state taxes, result in a tax burden of roughly 40 percent for America's businesses.

Such high corporate taxes have a two-fold deleterious effect on the economy. First, business activity is discouraged, with small businesses being hit the hardest. While large corporations may have the necessary capital and profits to survive high tax rates, smaller entities are much more at risk. With 40 cents of each dollar earned doing business in America taken from an entrepreneur, it's easy to understand why many small businesses in America have a tough time staying afloat, and why so many startups fail. Second, high taxes encourage individuals, pension funds, venture capitalists, and corporations to invest more in outside markets where their money can earn a greater return.

One example which clearly demonstrates the power that corporate tax rates have on an economy is the "Irish Miracle." From the 1960s through the 1980s, Ireland created a huge welfare state, funded through high taxes. The result was the stagnation of Ireland's GDP, Ireland placing dead last in per capita purchasing power in Europe, and a mass exodus from the island.

In the 1990s, that all changed with the enactment of sweeping economic reforms, including welfare reform, privatization of government services, and most importantly, a drastic cut in the corporate income tax rate to 12.5 percent, the lowest in Europe. The effect was a revitalization of the economy, unemployment lowered from 18 to 6 percent, and an increase in Ireland's per capita purchasing power to the highest in Europe, all in less than fifteen years. Ireland is now a destination for immigrants seeking economic opportunity.

While some lawmakers decry a move to cut corporate tax rates as irresponsible, fearing insufficient funding for government services and drastic budget shortfalls, it is important to realize that tax cuts do not necessarily result in less revenue. Indeed, they not only encourage economic growth, but often achieve greater overall tax revenues by helping the economy grow. The tax cuts passed under President George W. Bush are just the most recent example of tax cuts resulting in higher tax revenues.

America could learn from the experience of Ireland and many other European countries, especially those former soviet block countries that have since embraced economic and other freedoms with a passion. If the United States is to remain competitive in the global marketplace and continue to be the world's leading economy, our lawmakers must lower the corporate tax rate to a competitive level. This move will help jumpstart an economy facing a recession, and it is in the spirit of America's heritage of being first when it comes to business.

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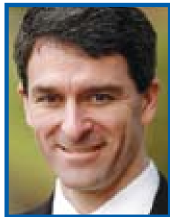
Member News

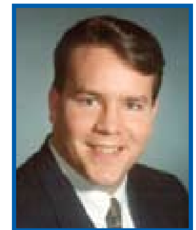
Cutting Taxes Across State Lines

Earlier this year, the state of Maryland enacted huge tax increases, earning the dubious distinction of being the only state to ever simultaneously raise its sales, income, and business taxes. Among these was a new and extremely unpopular sales tax of 6 percent on all computer services.



Sensing an opportunity, Virginia State Sen. Ken Cuccinelli (an ALEC member) sent an open letter to all Maryland computer services companies to "personally invite you to relocate your business to the Commonwealth of Virginia." He added "Virginia has consistently been rated one of the most business-friendly states in the nation."

Indeed, in ALEC's own economic ranking of the states, *Rich State Poor States*, Virginia was ranked the 6th best state in the country, while Maryland was 32nd. Virginia beats Maryland on a whole host of measurements which attract businesses and residents. For example, Virginia has no state minimum wage, levies no estate tax, does not force workers to join unions if they don't want to, has much lower workers' compensation costs, a better tort litigation system, and recently cut its taxes further. In the past ten years nearly 40,000 people have fled Maryland while Virginia gained over 160,000 net residents.



On the Maryland side, and trying to stem the tide of high taxes and business flight, State Sen. Alex Mooney (an ALEC member) made copies of Sen. Cuccinelli's letter available to every Maryland senator and delegate. "Maryland's recent tax increase will only drive more hard-working taxpayers out of the state," said Sen. Mooney. "We can't keep raising taxes on businesses and workers and not expect them to react."

The good news is that thanks to the efforts of the Maryland Chamber of Commerce, Sen. Mooney, and others, this tax has been repealed, but it was replaced with a higher income tax on residents earning over a million dollars per year.

Legacy Membership Program

ALEC invites its legislative members to become part of the Legacy Membership Program. By joining this program, ALEC Legacy Members help ensure the long-term sustainability of the organization through a restricted capital fund. The first 50 contributors will become "Charter Legacy Members" and receive free registration to ALEC conferences for life, a permanent name badge for this purpose, and a plaque honoring them for their commitment to ALEC and the organization's Jeffersonian principles. Finally, when funds from the program are used for infrastructure improvement within ALEC, Charter Legacy Members will be honored with a dedication plaque.

For more information contact Michael Conway, Director of Corporate and Legacy Programs, at 202-742-8528 or by e-mail at mconway@alec.org.

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