

24 February 2010

Today's Tabbloid

PERSONAL NEWS FOR lg@limitedgovernmentnetwork.com

FISCALLY CONSERVATIVE BLOG FEEDS

A New Fed-Treasury Accord [Cato at Liberty]

FEB 23, 2010 10:07P.M.

By Gerald P. O'Driscoll

Charles Plosser, President of the Federal Reserve Bank of Philadelphia, gave an important speech last week. He mounted a strong defense of what is known as Fed independence. "Central bank independence means the central bank can make monetary policy decisions without fear of direct political interference."

Toward the end of the speech, Plosser admitted the Fed had brought criticism down on itself by blurring the line between monetary and fiscal policy. In the process, the central greatly expanded its balance sheet and substituted "less liquid, long-term assets, such as securities backed by mortgages guaranteed by Fannie Mae and Freddie Mac, for the short-term securities it typically held before the crisis."

To extricate it self from conducting fiscal policy and get back to doing conventional monetary policy, Plosser called for a new Fed-Treasury Accord. (He harkened back to the Accord of 1951, which ended the Fed's wartime obligation to support the prices of Treasury bonds.) Under the proposal, the Fed would swap out its illiquid assets for Treasury obligations. Responsibility for public support of housing would revert to Treasury and be subject to Congressional appropriations.

Additionally, and very importantly, Plosser recommended ending or severely curtailing the Fed's expanded lending authority, which enabled it to balloon its balance sheet and conduct fiscal policy. (That is the section 13(3) authority.) "Never again" is the message of Plosser's speech.

It was a landmark speech by a high Fed official. 

FISCALLY CONSERVATIVE BLOG FEEDS

Ann Marie Buerkle Signs Taxpayer Protection Pledge in NY-25 [Americans for Tax Reform]

FEB 23, 2010 05:21P.M.

Ann Marie Buerkle, a candidate in 25th Congressional district in New York, recently signed the Taxpayer Protection Pledge. Buerkle is currently the only candidate in the NY-25 race to take the Pledge,...

FISCALLY CONSERVATIVE BLOG FEEDS

Taxes and Small Business [Cato at Liberty]

FEB 23, 2010 04:03P.M.

By Chris Edwards

I testified to the Senate Finance Committee today regarding taxes and small business. My testimony is posted here.

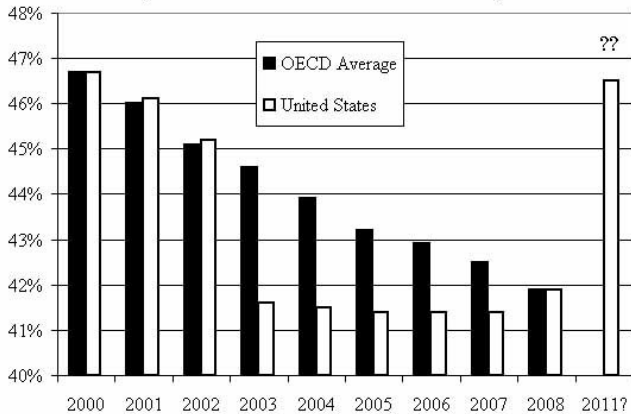
President Obama plans to raise the top two individual income tax rates. That will not be good for business or the economy. A little more than half of all business income in the United States is reported on individual returns, not corporate returns. Of the business income reported on individual returns, 44 percent is in the top two income tax brackets.

My testimony pointed out that while Congress cut the top individual rate by 5 percentage points this past decade, the average top rate in the 30 OECD countries also fell by 5 percentage points, as shown in the chart below.

If the top federal rate rises to 40 percent next year, the United States will have the ninth highest top individual rate in the OECD, including state-level taxes. We've already got the second-highest corporate tax rate in the OECD.

A nation that has been a relative bastion of market capitalism and individual achievement has a tax code that is becoming very hostile to high-earners, entrepreneurs, and businesses of all types.

Top Individual Income Tax Rates
(Includes national and subnational taxes)



FISCALLY CONSERVATIVE BLOG FEEDS

You Always Lose with Top-Down Standards [Cato at Liberty]

FEB 23, 2010 03:58P.M.

By Neal McCluskey

Yesterday, Andrew Coulson and I wrote a bit on President Obama’s little talk with the nation’s governors about potential changes to federal education policy. The root of the President’s proposal — and we’ve probably only seen fragments of what will eventually come out — is a requirement that states adopt common “college- and career-readiness standards” to qualify for large chunks of federal money.

This certainly puts in place the “standards” part of “standards and accountability” reform, which has dominated education for roughly the last fifteen years. But where’s the “accountability” part?

So far, nowhere. Yes, a state would have to adopt common standards — or, interestingly, somehow work with universities to certify its standards as college- and career-ready — but the administration has offered nothing by way of accountability for academic outcomes. Indeed, it has emphasized a move away from the “corrective” actions that No Child Left Behind imposes on laggard schools and has instead pushed getting extra resources (of course!) to those institutions.

This must be alarming to reformers who think the only way to fix education is to have government “get tough” on its schools. And the no-accountability approach certainly doesn’t make much intuitive sense. Without potential punishments or rewards for outcomes, what incentives do districts and schools have to meet standards, national or

otherwise?

The answer, of course, is none. But don’t fret: Whether there are accountability measures for performance or not, in government-run schooling the outcome will be the same. Unfortunately, “the same” always means “poor.”

Why inevitably poor? Because the people employed in education — teachers, school administrators, bureaucrats — have hugely disproportionate power over education politics, and hence a tremendous ability to bend the system to their will. And what do they prefer from the system? The same thing you or I would ideally get from our jobs: as much money as possible with no accountability for what we produce. The impotence of NCLB is exhibit A of this.

With that political reality firmly in mind, the final result for any potential combination of standards and accountability become clear: No meaningful improvement. The handy matrix below lays it out:

| <i>Top-Down Standards Outcomes Matrix</i> | | |
|---|--|--|
| | Easy Accountability | Tough Accountability |
| Easy Standards | Politicians will adopt the standards and have little political incentive to lower them. The outcomes, however, will be poor. | Politicians will adopt the standards and have little political incentive to lower them. The outcomes, however, will be poor. |
| Tough Standards | Politicians will adopt the standards but do little to meet them. Outcomes will be poor. | Politicians will adopt the standards, but will exert constant political pressure to lower them. The outcomes will be poor. |

Cato Institute

So let’s give this to President Obama: His move to further federalize education authority is very troubling, but at least he doesn’t see the need for the accountability charade. Or so, anyway, it seems for the moment.



FISCALLY CONSERVATIVE BLOG FEEDS

Unions, Productivity, and the 2010 Economic Report of the President [Cato at Liberty]

FEB 23, 2010 03:05P.M.

By Daniel Griswold

I've become a fan over the years of the annual *Economic Report of the President*, released around this time each year by the Council of Economic Advisers. The more than 100 tables in the back of the book provide an invaluable picture of the economy over many decades, covering all the major indicators from output and employment to interest rates and trade. Each report also contains chapters explaining the economic thinking behind administration policies.

Chapter 10 of the latest report focuses on "Fostering Productivity Growth through Innovation and Trade." For critics of trade, it offers sound economic reasons why trade raises U.S. productivity and, thus, over the long run, U.S. living standards.

One of ways trade promotes growth is "Firm Productivity." Economists have come to appreciate that firms within an industry will differ in their productivity. Those that are more productive will tend to grow and prosper in larger and more competitive global markets. As a result,


when a country opens to trade, more productive firms grow relative to less productive firms, thus shifting labor and other resources to the better organized firms and increasing overall productivity. Even if workers do not switch industries, they move from firms that are either poorly managed or that use less advanced technology and production processes toward the more productive firms.

The report doesn't mention this, but one reason why firms differ in their productivity is unionization. As I spell out in an "Economic Watch" column in today's *Washington Times*, and explore in more detail in the latest *Cato Journal*, unionized firms tend to lose market share to non-unionized firms:

The weight of evidence indicates that, for most firms in most sectors, unionization leaves companies less able to compete successfully. The core problem is that unions cause compensation to rise faster than productivity, eroding profits while at the same time reducing the ability of firms to remain price-competitive. The result over time is that unionized firms have tended to lose market share to non-unionized firms, in domestic as well as international markets.

Compared to equivalent non-unionized competitors, unionized firms are associated with lower profits, less investment in physical capital, and less spending on research and development. By exposing an industry (say,

automobiles) to more vigorous international competition, trade accelerates the shift from less competitive unionized firms to more competitive non-unionized firms.


Economists serving a Democratic administration would be understandably reluctant to say such a thing explicitly, but it is certainly there between the lines in Chapter 10 of the new *Economic Report of the President*. 

FISCALLY CONSERVATIVE BLOG FEEDS

Tuesday Links [Cato at Liberty]

FEB 23, 2010 01:56P.M.

By Chris Moody

- How the stimulus *raised* unemployment.
- Price controls have failed in the past and there is no reason to think they will work now. So why is the president proposing price controls on health care? Michael Tanner: "Attempts to control prices by government fiat ignore basic economic laws — and the result could be disastrous for the American health-care system."
- Does this federal government policy make me look fat? Be honest. (Yes).
- So, President Obama wants a presidential commission on the budget deficit. Isn't that a little bit like W.C. Fields asking for a commission on sobriety?
- Podcast: "POTUS and Price Controls in Health Care" featuring Michael F. Cannon. 

FISCALLY CONSERVATIVE BLOG FEEDS

Obamacare's Individual Mandate Penalty Is a Tax [Americans for Tax Reform]

FEB 23, 2010 01:44P.M.

A close reading of President Obama's healthcare plan finds several terms to describe the tax Americans will pay if they choose not to purchase qualifying health insurance. These terms include &q.,;.

FISCALLY CONSERVATIVE BLOG FEEDS

DC Shouldn't Subsidize Parking Garages [Cato at Liberty]

FEB 23, 2010 01:32P.M.

By Tad DeHaven

The District of Columbia is providing tax incentives for a parking garage at a new Harris Teeter grocery store. This follows a District subsidized parking garage boondoggle that opened at a Columbia Heights mall in 2008. Whether it's a parking garage, bike rack, or any other commercial transportation activity, government should remain neutral. If Harris Teeter believes a 150-car parking garage is in the best interests of the company's bottom line, it should pay for it itself. Taxpayers shouldn't be on the hook. If the District or any other city wants to encourage economic development, it should seek lower taxes across the board, and remove costly regulatory barriers.

H/T Chris Moody

FISCALLY CONSERVATIVE BLOG FEEDS

Government Program Competes with First-Time Home Buyers [Cato at Liberty]

FEB 23, 2010 01:31P.M.

By Mark A. Calabria

If there should ever be a great time to be a first-time home buyer — it should be now. Mortgage rates are at historic lows. Prices have fallen almost 30% across the country since the peak. Builders continue to add supply into already saturated markets. Yet, as the *Wall Street Journal* reports, potential first time home buyers are facing stiff competition from investors...and from the government.

Congress has appropriated about \$6 billion to local and state governments to buy foreclosed properties. President Obama is proposing to add another \$1.5 billion that could be used for similar purposes. The argument is supposed to be that these funds would eliminate the negative impact of foreclosures on communities, while also providing shelter to needy families. Part of the program's rationale is that local governments' will select a better group of tenants and purchasers that would private investors (the history of public housing should rebut that assumption).

With the exception of cities like Detroit, Cleveland and Buffalo, many of the country's boom areas still have significant population and other amenities (like sunny weather). Many people would continue to choose to live in these areas, if only they were more affordable. After all these years of massive subsidies for home-ownership, there seems a great irony in having the government now be one of the largest barriers to families achieving home-ownership — by using tax dollars to bid up and compete away existing homes.

FISCALLY CONSERVATIVE BLOG FEEDS


Europe: Either Bismarck or the Euro, but Not Both [Cato at Liberty]

FEB 23, 2010 12:27P.M.

By José Pinera

The Maastricht Treaty requires countries in the eurozone not to exceed a public debt of 60% of GDP. Well, now almost all of them have an official debt exceeding that ceiling. But the situation is immensely worse because European states also have huge, and largely hidden, unfunded liabilities arising from their pension and health systems. According to a 2009 study by my colleague Jagadeesh Gokhale, the true debt of the 25 European countries is, on average, 434% of GDP. And the treaties that underpin European integration do not say a word about such debt.


Greece's true debt is 875% of GDP and its current problems are just the first act of the coming fiscal bankruptcy of Europe. In my 2004 essay "Will the Pension Time Bomb Sink the Euro?", I concluded that Europe would end up facing a critical crossroads: either leave the Euro or abandon the Bismarckian welfare state paradigm. As it turns out, the DNA of the pay-as-you-go system allows for political manipulation and the consequent inflation of pension and health "rights." This, exacerbated by falling fertility rates and increasing life expectancy, will lead to increasing fiscal deficits, unpayable debt, state insolvency, defaults, covert age wars, and the failure of the Eurozone project.

The welfare state has really become an arbitrary "entitlement state," where everyone uses the state to rob someone else, and politicians from the right and the left play the transfer game to win elections. This crisis may serve to reveal the true nature and enormous flaws of the welfare state. Sooner or later, Europe will have to dismantle it and move toward a paradigm of personal responsibility — that is, a system of personal accounts for pensions, health and unemployment benefits. 

FISCALLY CONSERVATIVE BLOG FEEDS

California Lawmakers Really Want to Tax the Internet [Americans for Tax Reform]

FEB 23, 2010 11:47A.M.

Originally posted on www.StopETaxes.com. Last year, when Gov. Arnold Schwarzenegger vetoed a proposal (AB 178) to extend the sales tax to all online sales, the California legislature vowed a ... 

FISCALLY CONSERVATIVE BLOG FEEDS

Yeeow? Ayipioeeay? [Cato at Liberty]

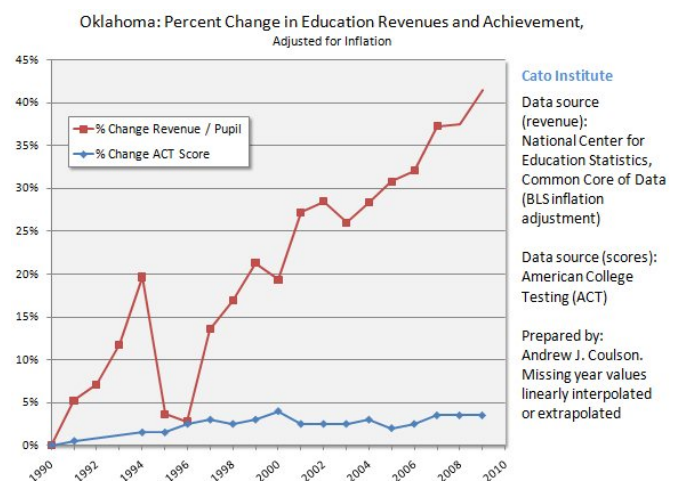
FEB 23, 2010 11:27A.M.

By Andrew J. Coulson

And when we say
Yeeow! Ayipioeeay!
We're only sayin'
You're doin' fine, Oklahoma!
Oklahoma O.K. — Oscar Hammerstein, Oklahoma


And when you're *not* doing fine?

I was asked recently by Brandon Dutcher of the Oklahoma Council of Public Affairs to investigate the relationship between spending and student achievement in his state, and to chart the results as I've done for U.S. school spending and student achievement. Here it is:



For reasons I've never understood, the NAEP test results for students at the end of high-school have never been broken down by state—they're

only reported nationwide—so for the achievement measure I used the ACT. Oklahoma's participation rate in the ACT is high (between the mid 60s and low 70s), hasn't fluctuated wildly over time, and is not significantly correlated with its actual scores (I ran a regression to find out), so it's a reasonable measure. I've only carried it back to 1990 because the ACT was redesigned in that year, making the scores discontinuous.

When they see the chart, maybe Oklahoma taxpayers can say: "Owwww! AiYaiYai!" 

FISCALLY CONSERVATIVE BLOG FEEDS

Tuesday's Daily News [The Club for Growth]

FEB 23, 2010 11:12A.M.

ObamaCare at ramming speed! Greg Mankiw writes, James Traficant is running for Congress. 

FISCALLY CONSERVATIVE BLOG FEEDS

The Failure of Anti-Money Laundering Laws [Larry Kudlow's Money Politic\$]

FEB 23, 2010 10:46A.M.


Here's a new video from my friend Dan Mitchell which takes a look at anti-money laundering laws. As Dan shows, these laws are intrusive and expensive, which might be okay if they yielded real benefits in the fight against crime. Unfortunately, the video explains that these laws actually undermine the fight against crime by misallocating law enforcement resources.



FISCALLY CONSERVATIVE BLOG FEEDS

See, see? He's a moderate! Now, be angry! [The Club for Growth]

FEB 23, 2010 10:14A.M.

Does anyone else catch a whiff of desperate, wishful thinking in asides like this, from the Reuters story about Sen. Scott Brown s biases are not caused by dislike for conservatives, but their fathomless, galactic ignorance of us. 

FISCALLY CONSERVATIVE BLOG FEEDS

Crist campaign experiencing staff exodus? [The Club for Growth]

FEB 23, 2010 09:41A.M.

St. Pete Times this morning is reporting that Charlie Crist S COMMITTEE. 202-955-5500. 

FISCALLY CONSERVATIVE BLOG FEEDS

Utah Legislators Call for Fiscal Federalism [Cato at Liberty]

FEB 23, 2010 08:52A.M.

By Tad DeHaven

Tea partiers take note: at the forefront of any effort to reduce the size of the federal government should be the devolvement of federal programs to the states. Achieving this may seem like mission impossible given the states' addiction to federal money. However, there are signs that the idea of returning the relationship between the federal government and the states to that which the Founders prescribed is starting to gain some currency.

On Friday, the president of the Utah Senate and the speaker of the Utah House of Representatives penned an op-ed in the *Washington Post* calling for the federal government to begin the devolution process. The authors want the states to have the right to opt out of federal programs and allow the states to keep the taxes their residents send to Washington to fund them. The states would then be free to fund and manage the programs as they see fit.

The authors call their idea a "modest experiment," and indeed, it is hardly radical. The 10th amendment to the Constitution is clear:

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

From the op-ed:

Let's select a few programs — say, education, transportation and Medicaid — that are managed mostly by Utah's government, but with significant federal dollars and a plethora of onerous federal interventions and regulations.

Let Utah take over these programs entirely. But let us keep in our state the portion of federal taxes Utah residents pay for these programs. The amount would not be difficult to determine. Rather than send this money through the federal bureaucracy, we would retain it and would take full responsibility for education, transportation and Medicaid — minus all federal oversight and regulation.

Such a notion terrifies proponents of big government because state budgets are generally constrained by balanced budget requirements, debt inhibitions, and the inability to print money. States are also more limited in how much they can abuse taxpayers for the simple reason that citizens can move to a friendlier environment. Indeed, one of the beautiful aspects of returning to fiscal federalism is that it would strengthen this competition that \$600+ billion in annual federal subsidies has somewhat neutered.

See this essay for more on fiscal federalism and this Cato Policy Analysis on the problems with federal subsidies to state and local governments.



FISCALLY CONSERVATIVE BLOG FEEDS

ObamaCare 3.0: Higher Implicit Taxes, Quicker Death Spiral

[Cato at Liberty]

FEB 23, 2010 08:49A.M.

By Michael F. Cannon

In a recent paper, I showed that the health care legislation passed by the House and Senate would impose punitive implicit tax rates on low- and middle-income workers. Those bills would also result in higher health insurance premiums over time because they would create large financial incentives for healthy people to drop coverage and only purchase it when they become sick.

The health care proposal that President Obama released yesterday essentially splits the difference on most areas of disagreement between the two bills. But a preliminary analysis shows that ObamaCare 3.0 would make these perverse incentives even worse. Families of four


earning \$22,000 under the Senate bill (100 percent of the federal poverty level) or \$30,000 under the House bill or the Obama plan (133 percent FPL) would face the following effective marginal tax rates as they climb the economic ladder:

- Senate bill – Average: 62 percent. High: 73 percent.
- House bill - Average: 74 percent. High: 82 percent.
- **Obama plan – Average: 72 percent. High: 90 percent.**

In other words, over broad ranges of income, families of four would see their take-home pay rise by an average of 28 cents of each additional dollar earned. In some cases, it would rise as little as 10 cents for each additional dollar earned. Using smaller changes in income reveals the Obama plan would create EMTRs as large as 200 percent or higher. That is, earning more money would leave many families worse off financially.

In addition, by requiring insurers to cover all applicants without regard to illness, each of these health plans would remove any penalty on waiting until you are sick to purchase coverage. Therefore — even after accounting for all relevant taxes, subsidies, and penalties — these plans would create large financial incentives for healthy people to drop out of the market, which would cause premiums to rise for those who remain. That would in turn encourage more healthy people to drop out, which would cause premiums to rise further, and so on. Those perverse incentives are much worse under the Obama plan than under the House or Senate bills. Here are the maximum financial incentives to drop coverage that each plan would create for families of four:

- Senate bill: \$8,000
- House bill: \$7,800
- **Obama plan: \$9,900**

By increasing the financial incentives to drop coverage, the Obama plan would cause private insurance markets to unravel even faster than the House and Senate bills would. 

FISCALLY CONSERVATIVE BLOG FEEDS

School Webcams and Strange Gaps in Surveillance Law [Cato at Liberty]

FEB 23, 2010 08:46A.M.

By Julian Sanchez

Last week, I noted the strange story of a lawsuit filed by parents who allege that their son was spied on by school officials who used security software capable of remotely activating the webcams in laptops distributed to students. A bit more information on that case has since come out. The school district has issued a statement which doesn't get into the details of the case, but avers that the remote camera capability has only ever been used in an effort to locate laptops believed to have been lost or stolen. (That apparently includes a temporary "loaner computer that, against regulations, might be taken off campus.") They do, however, acknowledge that they erred in failing to notify parents about this capability. The lawyer for the student plaintiff is now telling reporters that school officials called his client in to the vice principal's office when they mistook his Mike and Ike candies for illegal drugs.

Perhaps most intriguingly, a security blogger has done some probing into the technical capabilities of the surveillance software used by the school district. The blogger also rounds up comments from self-identified students of the high school, many of whom claim that they noticed the webcam light on their school-issued laptops flickering on and off—behavior they were told was a "glitch"—which may provide some reason to question the school's assertion that this capability was only activated in a handful of cases to locate lost laptops. The FBI, meanwhile, has reportedly opened an investigation to see whether any federal wiretap laws may have been violated.

It's this last item I want to call attention to. The complaint against the school district states a number of causes of action. The most obvious one—which sounds to me like a slam dunk—is a Fourth Amendment claim. But there are also a handful of claims under federal wiretapping statutes, specifically the Electronic Communications Privacy Act and the Stored Communications Act. These are more dubious, and rest on the premise that the webcam image was an "electronic communication" that school officials "intercepted" (as those terms are used in the statute), or alternatively that the activation of the security software involved "unauthorized" access by the school to its own laptop. The trouble is that courts considering similar claims in the past have held that federal electronic surveillance law does not cover silent video surveillance—or rather, the *criminal* wiretap statutes don't.

That leads to a strange asymmetry in a couple of different ways. First, *intelligence* surveillance covered by the Foreign Intelligence Surveillance Act *does* include silent video monitoring. Second, it seems to provide less protection for a type of monitoring that is arguably still more intrusive. If officials had turned on the laptop's microphone, that would fall under

ECPA's prohibition on intercepts of "oral communications." And if the student had been engaged in a video chat using software like Skype, that would clearly constitute an "electronic communication," even if the audio were not intercepted. But at least in the cases I'm familiar with, the courts have declined to apply that label to surreptitiously recorded silent video—which one might think would be the most invasive of all, given that the target is completely unaware of being observed by anybody.

One final note: The coverage I'm seeing is talking about this as though it involves one school doing something highly unusual. It's not remotely clear to me that this is the case. We know that at least one other school district employs similar monitoring software, and a growing number of districts are experimenting with issuing laptops to students. I'd like to see reporters start calling around and find out just how many schools are supplying kids with potential telescreens. 