

NEWSLINK



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IDEAS AND UPDATES ON PUBLIC POLICY

Fall 2001

'Marketing order' bogs down local growers

No Thanksgiving for the Massachusetts cranberry industry

Thanksgiving conjures up images of pilgrims, football games, your loud Uncle Ed and, most importantly, food. In 1621, the first Thanksgiving took place as the Pilgrims "entertained and feasted" on their harvest of produce and game. There was corn, squash, turkey and that most Massachusetts of fruits, the cranberry.

The cranberry is as synonymous with Massachusetts as the Red Sox or clam chowder. Commercial cultivation of cranberries began in Dennis, Massachusetts in 1816. Ask yourself, "Where is Cranberry World?" The answer, of course, is Plymouth, Massachusetts. In recent years, however, the cranberry industry in Massachusetts has seen the flooding of more than just bogs.

The cranberry industry, once centered in the Commonwealth, has grown and expanded throughout the country. But over the last four decades, Massachusetts has seen its share of

national cranberry production drop from 60 percent of the total in 1960 to less than 35 percent today (see chart on page 4). Wisconsin, still known as the cheese capital of the country can now – and this really hurts – claim to be cranberry capital as well. In 2000, Wisconsin cranberry farmers produced 47 percent of the national crop.

From 1960 to 2000, the number of acres committed to cranberry farming in the U.S. increased by 73 percent. For Massachusetts the increase was 9 percent, while for Wisconsin, it was a whopping 259 percent. The result has been a dramatic loss in market share for Massachusetts.

Increases in production outside of Massachusetts and stagnation of sales have led to the accumulation of substantial inventories. The resulting flood of cranberries has forced down the price farmers receive for their crop. The Cranberry Marketing Committee (CMC) of the U.S. Department of Agriculture



decided last year, at the request of Ocean Spray Cranberries, to impose a restriction on cranberry production in order to drive the price of cranberries higher. Ocean Spray is the largest handler of cranberries.

In order to limit production and to raise price, the CMC enacted a marketing order that sets an industry-wide quota on the quantity of cranberries each individual grower can bring to market. Last year the

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THE BIG SQUEEZE - Federal marketing orders that restrict the amount of cranberries farmers can grow each year are causing Mass. handlers such as John Decas (above) of Decas Cranberry Products of Wareham to buy cranberries from out-of-state growers. Decas Cranberry's Vice President of Operations Jeffrey Carlson (left) oversees cranberries to be processed under this year's quota.

From the Executive Director

While there are few laws that are more nobly entitled than the Community Preservation Act of 2000, the implementation of this piece of legislation is threatening to jeopardize the economies of municipalities all over Massachusetts. Thirty Massachusetts communities have already adopted the property tax surcharges mandated by this Act and another 13 were asked to do so on the November ballot. We weighed into this debate by calling attention to data showing how approval of this measure by Boston voters would destroy jobs.

The CPA is nothing more than a "smart-growth" plan that uses the lure of matching state funds to get communities to bypass Proposition 2 1/2. What its proponents won't say is that raising the already-high tax on commercial property will reduce the competitiveness of their communities for business and jobs. Massachusetts has already lost some 51,000 jobs as a result of property tax increases that have taken place since 1990. Widespread adoption of the CPA will simply worsen this trend.

I Want My "Publicly Provided" MTV

Some Massachusetts communities have either entered or are giving consideration to entering the cable TV/Internet business. The town of Braintree has been providing cable TV to its citizens since the beginning of the year, and in November, Norwood gave its electric department the go-ahead to build a cable system. Often the leaders of these towns portray the cable TV/Internet business as a profit making slam-dunk to its citizens, when in reality it is more along the lines of a shot from half-court with time running out.

Our recent study of publicly managed cable TV/Internet businesses across the country, and in Massachusetts, shows that a town is more likely to lose than to make money on these projects. Taxpayers should be aware of this risk because it is they who ultimately must bear the cost of failure. Taxpayers deserve to know that there are more prudent uses of public funds than adding three more pay-per-view stations to their cable line-up.

Bogged Down with Regulations

There is nothing as American as apple pie nor as symbolic of Massachusetts as cod or cranberry sauce. Sadly, the Massachusetts cranberry is joining the cod as an endangered species. Why? The reason is a marketing order imposed last year that was intended to benefit cranberry growers everywhere but is having the effect of accelerating the decline of the Massachusetts cranberry industry. This month's lead article tells how and why this debacle came to pass.

The Agonies of Academe

Since humor is always a good thing – even in the face of the worst tragedy – we can enjoy poking fun at the many absurdities that the events of September 11 have produced on college campuses. A recent *New York Times* piece, for example, describes a UCLA course in which the instructor prom

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BHI analysis finds that Boston stood to lose 1,500 jobs if CPA passed

On October 25 BHI released the *FaxSheet, New Economic Analysis Shows Boston Ballot Question 1 Will Cost Jobs*, detailing the adverse economic effects of a proposal to raise Boston's property tax. Using our econometric model of the state, Massachusetts-STAMP, our study found that increases in the commercial and industrial property tax that have taken place since 1990 will, by 2002, have cost the state 51,175 jobs.

The focus of the report, cited in both the *Boston Globe* and *Boston Herald*, is a property-tax increase of 2% being put before Boston voters would increase this tally of lost jobs by 1,510.

Advocates of open space, community preservation and affordable housing were promoting the tax hike. It was proposed under the auspices of the Community Preservation Act of 2000 (CPA), which enables local cities and towns to enact surcharges on real estate taxes outside the levy limitations of Proposition 2 1/2.

The Boston initiative proposed a 2 percent property tax surcharge that would exempt

\$100,000 of residential property. The initiative also includes exemptions for low-income homeowners.

If approved by voters, the surcharge is expected to collect \$14 million a year from Boston taxpayers over the next five years. An amount which advocates claim would be matched by the state.

Much attention has been paid to the new revenue that will be provided to build affordable housing and preserve historic buildings. However little debate has focused on the potential job losses to the city and state.

Passage of Question 1 in Boston would worsen the substantial job losses that the recession and past increases in the Boston commercial property tax rate have already inflicted on the local economy. Boston businesses already pay among the highest property taxes in the state. This measure simply puts the burden of a statewide housing problem on local businesses, with predictable negative consequences for local workers.

P.S. On Nov. 6 Boston voters turned down the measure. ❖

Economist Barrett joins BHI

John Barrett, former Regional Economist for the U.S. Bureau of Economic Analysis, has joined the Beacon Hill Institute as a Research Economist. In his new position, Barrett will oversee the Institute's State Tax Analysis Modeling Program (STAMP) projects. Since his arrival, Barrett was instrumental in providing the research for BHI's recent study, *Cashing in on Cable: Warning Flags for Local Government*.

As a Regional Economist for the BEA in Washington, DC, Barrett was responsible for the collection and production of gross state product data. He also focused on indirect business taxes and the compensation of employees by industry. Prior to working at BEA, Barrett was a Research Fellow for the Center for a Sustainable Economy in Washington, D.C. There he modeled national and regional tax policy initiatives for congressmen leading the debate on tax issues. He holds a bachelor's degree in economics from the University of Connecticut and a master's degree in economics from New Mexico State University. ❖

Media Mentions

On November 5, David Tuerck appeared on "The David Brudnoy Show," WBZ Radio, to discuss the national economy after the September 11 terrorist attack.

On October 30, *The Norwood News*, "Independent study warns cable plan may be costly," and the *Quincy Patriot Ledger*, "Cable, Internet called risky for towns: Report warns of 'rough and tumble' business," covered the release of BHI's study, *Cashing in on Cable: Warning Flags for Local Government*.

The October 26 edition of *The Boston Globe* covered the institute's study of a Community Preservation Act proposal that appeared on the Boston ballot on November 6, in "Tax hike plan could cost jobs, study says." The *Boston Herald* ran a story, "Suffolk University group says Question 1 would cost jobs," on October 26. BHI's study was also quoted in an editorial, "A No on Question 1 would save jobs," that appeared in the *Boston Herald* on November 1. David Tuerck's opinion editorial, "Question 1: Bad policy, Bad Deal for Boston," appeared in the November 2 edition of the *Boston Business Journal*.

Stories on the Buckeye Institute's application of the BHI Ohio-STAMP model appeared in the *Cincinnati Enquirer* (June 6), the *Metro Press* of Milbury, Ohio (July 23) and the *People's Defender* of West Union, Ohio (July 25).

The September 24 edition of the *Baltimore Daily Record* quoted David Tuerck on BHI's study *Universal Health Care and the Maryland Economy*. On September 7, the *Baltimore Gazette* and the *Baltimore Sun* ran stories about the study.

In the September 6 *New York Times*, Mayor Giuliani commented on BHI's study for the Manhattan Institute in a story entitled, "Tax Increases Would Cost Jobs, Mayor warns." Also the *New York Post* ran an opinion editorial by E.J. McMahon based on the New York City-STAMP, entitled "Fruits of NY's Tax Cuts."

In the August edition of *The World & I*, David Tuerck explained how tax cuts helped create jobs in Connecticut and Massachusetts.

David Tuerck appeared on "The David Brudnoy Show" (WBZ radio) on June 14 to discuss the Massachusetts economy. He appeared on "Special Report with Brit Hume" (Fox News) on June 13 discussing the Vermont Dairy Compact.



TALKING TAX CUTS -- David G. Tuerck recently moderated a panel discussion on state tax policy at the State Policy Network meeting in Boulder, CO in October.

Massachusetts Lawyers Weekly cited BHI's work on legal assistance funding for the poor on June 4, in an editorial entitled, "Funding Legal Services."

Cranberries

continued from page 1

quota was set at 85 percent per grower. This year, the quota was lowered to 65 percent of a grower's average best four years of production out of the last seven.

There are two problems, however: First, there are huge inventories of cranberries, accumulated before the marketing order went into effect, that are available for sale on the market. Second, there is nothing in the marketing order to prevent new fields from being developed, both in and out of the United States. Wisconsin and Canada are both a source of new production. Canadian producers, who export 80 percent of their production to the United States, are, moreover, not subject to the marketing order at all, putting Massachusetts growers along with other U.S. growers at a comparative disadvantage.

With Massachusetts growers limited by urbanization, environmental regulations, property values and the like, they have been unable to expand production. Ironically, on the other hand, implementation of the marketing order seems to have triggered a surge in production from outside the state. With more and more cranberries available from Wisconsin, Canada and other areas outside Massachusetts, the fraction of the market that Massachusetts growers are able to serve is going steadily downward.

In effect, Massachusetts finds itself being penalized for doing its bit to reduce the cranberry surplus. Massachusetts growers and handlers traditionally keep their production in line with demand and avoid accumulating costly inventories. Now, under the marketing order, they are, in effect, giving up 35 percent of their crop in order to subsidize the development of new bogs in Wisconsin and Canada.

Taxpayers are subsidizing this process, too. Last year the federal government paid cranberry growers slightly less than five dollars a barrel in subsidies, the total subsidy for U.S. growers coming to about \$20 million. In addition to this subsidy, the federal government spent \$30 million to buy cranberry products for the purpose of

handlers and processors are forced to go to Ocean Spray for supplies. This, in turn, encourages Ocean Spray to continue expanding out-of-state production for the purpose of increasing its control over the market.

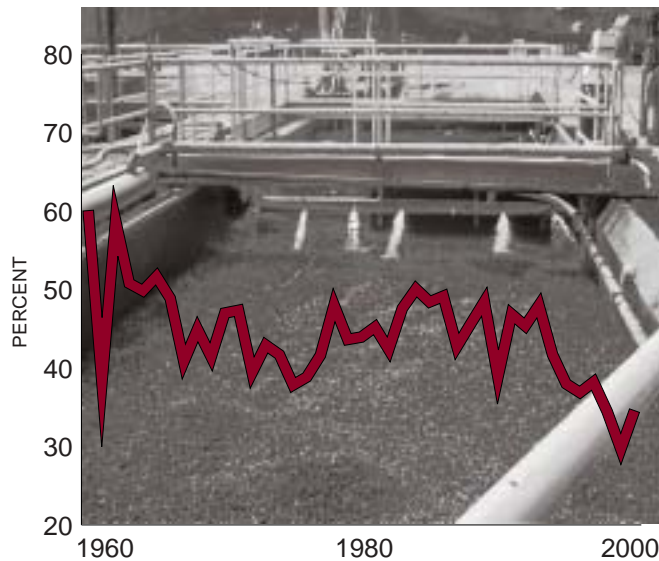
John Decas, an independent Massachusetts grower and processor, has explained in testimony how this process affects him: "Buyers of about 80 percent of my concentrate supply have told me and my brokers that they have been visited by Ocean Spray representatives and offered cranberries below the price they intend to charge my company to replace my regulated berries. In other words, Ocean Spray is using the marketing order... as a predatory means of acquiring a major portion of my companies market share."

Ocean Spray management seems to welcome this criticism. CEO Robert Hawthorne has been quoted as saying, "We need to manage the oversupply problems. When we take back our market share, we are not taking anything away from anyone, we are taking back what belongs to us...what is ours! The only place that Northland [a competitor] belongs, is in receivership."

This year's Massachusetts cranberry crop is turning out to be especially disappointing, so that local handlers and processors find themselves struggling to meet demand. The result is that those demands will be met, if it all, largely from inventories and from cranberries produced out of state and out of the United States.

If the marketing order was intended to consolidate Ocean Spray's market power, then it is succeeding splendidly. If it was intended to shore up Massachusetts' declining market share, then, as with so many past price-fixing arrangements, it is failing badly. While Uncle Ed and the rest of us might enjoy this year's Thanksgiving dinner, Massachusetts growers and processors will have little to celebrate. Better to abandon all price supports and subsidies and let Massachusetts growers bring all they want to market than to enlist their participation in an arrangement that seems to be accelerating their decline. ❖

Massachusetts Share of US Cranberry Production 1960-2000



Source: National Agricultural Statistical Service, US Department of Agriculture

reducing the surplus and keeping up price.

As it turns out, Ocean Spray controls most of the inventories and most of the Canadian production. Members of the Ocean Spray cooperative produce approximately 70 percent of cranberries grown in the United States but account for only 55 percent of sales. This difference represents a yearly surplus of cranberries that goes into Ocean Spray inventories. Those inventories exceeded three million barrels by August of 2000. Ocean Spray's surplus represents approximately 70 percent of the industry surplus.

What we have, then, is another example of a regulation having perverse consequences for its intended beneficiaries: With independent growers in Massachusetts hamstrung by geography and by the marketing order,

Local governments should pause before rolling out broadband services

Municipalities should think twice before entering the cable TV/Internet business. This is the conclusion of a new study released recently by the Beacon Hill Institute at Suffolk University. The study, entitled *Cashing in on Cable: Warning Flags for Local Government*, identifies some of the political and financial pitfalls that threaten municipalities contemplating entry into the cable TV/Internet business.

Explaining the purpose of the study, David G. Tuerck, BHI executive director, said that the cable TV/Internet business is especially alluring to municipalities like the Massachusetts towns of Norwood and Braintree. These towns have an existing electric power business and believe they can compete effectively with the incumbent private-sector cable TV/Internet provider. The problem is that, given the highly competitive, technically changing nature of the telecommunications industry, entry into the cable TV/Internet business poses risks for any entrant, public or private. "As our study points out," said Tuerck, "the rough-and-tumble cable business is not something for which the average town hall is well suited."

The study points out five major pitfalls:

- *Evidence of municipalities that have tried but failed.* The study reviews the case history of five communities from around the country that have lost money and/or threatened to increase electric rates or local taxes.
- *Failure to assess adequately the risks of failure.* Norwood is prepared to enter the cable TV/Internet business on the strength of financial data that purportedly show an expected profit. A close examination of these data, however, shows that the venture could

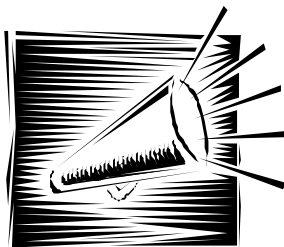
well prove to be a money-loser for Norwood.

- *The risk that electric ratepayers will be called upon to subsidize the cable TV/Internet business.* Last year, Braintree transferred \$2.2 million from its electric department to its cable business. Cross-subsidization of this kind penalizes electric ratepayers and exaggerates the profitability of the cable business.
- *The risk that the cable TV/Internet business will drain funds from other municipal needs.* As its cable TV/Internet business seeks \$1.5 million in new funding, Braintree finds itself increasingly unable to fund urgent school, sewer and building renovation projects.
- *The possibility that income received by a cable TV/Internet business may be taxable, even when earned by a public entity.* The IRS might deem such income as subject to the Unrelated Business Income Tax. Municipalities entering the cable TV/Internet business may also jeopardize the tax-exempt status of their electric power operations.

The study concludes with a consideration of a number of related concerns that

arise in connection with the entry by a municipality into the cable TV/Internet business. Once it gets into the cable TV/Internet business, a municipality is unlikely to get out, even if it is losing money. Instead, it is likely to raise rates, divert revenue from its electric power business (if it has one), raise taxes, and even try to limit competition from other providers.

Telecommunications is becoming increasingly competitive, with the creation of new technologies, corporate mergers, and a softening economy. Municipalities should assess the risks carefully before they take on such an uncertain venture. A copy of the study can be obtained at BHI's web site at www.beaconhill.org



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Executive Director

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ises to bring “attention to America’s own record of imperialistic adventurism and the relation of the W.T.C. bombings to American excesses in Iraq, Sudan and the Middle East.”

The *Times* article mentions this course to illustrate the “sentimental psychobabble” and the “politically correct pseudo-courses” that are proliferating throughout academe in the wake of the attack. And, indeed, there is a certain comic relief in watching academics, ordinarily fervent in their defense of women’s rights and cultural diversity, trying to put a favorable spin on the slaughter of 5,000 innocent Americans by one of the most unenlightened, repressive regimes in the history of civilization.

The tendency, when we hear of academics acting this way, is to shrug off the fact as something that we have to let academics do because, well, that’s what they do. Perhaps, though, we should not let them off the hook so easily. Perhaps we should

demand of the sociologists, political scientists, philosophers and – yes – economists among us that they explain how our culture has evolved to the point that the very cream of our society could become victims of a group of fanatics armed with crude weapons. How did we become so open, so “diverse,” so vulnerable, so unsuspecting that it was easy for a few terrorists to kill so many of us, to destroy billions of dollars in infrastructure and to threaten our national economy?

I wonder, then, if we need a new kind of academic curriculum, one that focuses on historical threats to secularism, to rationality, to democracy and to economic freedom. Perhaps we need to revise our curriculum to emphasize how the value we call “diversity” is a Western value that is under threat from forces that would impose, in its place, a harsh fundamentalism, under which critical thinking of any kind would not be tol-

erated. Perhaps we need refresher courses for our students on how American democracy – not “adventurism” – is the crucible of freedom and economic progress and

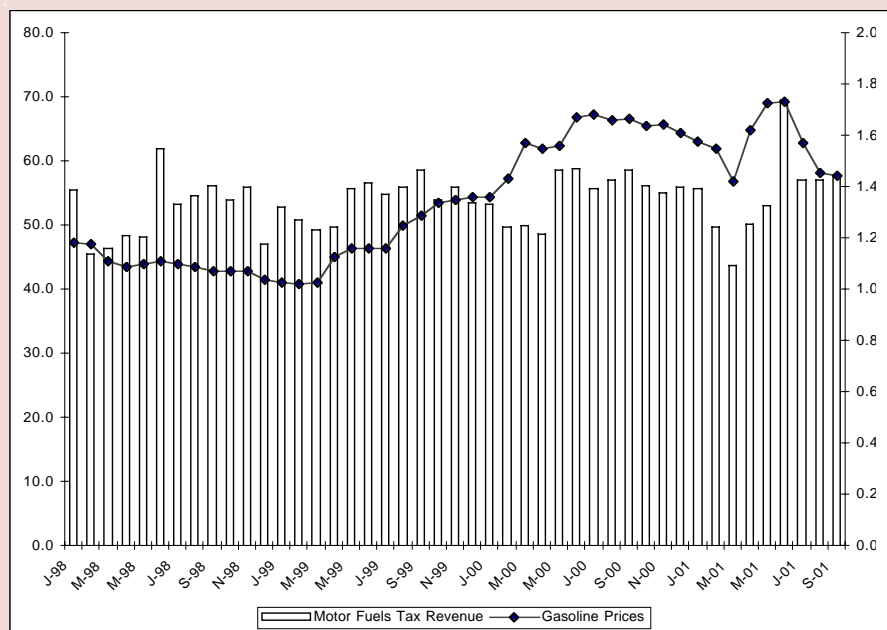
how we need to be ever vigilant against the envy and hatred that those values inspire among the practitioners of intolerance and statism.

Who knows? Perhaps a new breed of academics will eventually take

the place of those baby boomers, now tenured and deeply into their careers, who have made a career of demonizing America. Parents, students, alumni and university contributors and trustees everywhere should welcome a change that would put more people on university faculties who see it as their job to preserve, and not to condemn, American values. ❖

Perhaps we need to revise our curriculum to emphasize how the value we call "diversity" is a Western value now under assault from fundamentalism.

Cruising along: Gasoline prices and tax revenues



Sources: Mass. Department of Revenue, American Automobile Association and US Energy Information Administration

Gasoline prices in Massachusetts have varied from a low of \$1.02 for regular-grade in February 1999 to \$1.73 in May of 2001. But after May’s huge price hike, gas prices are trending downward again. The average price for September 2001 was \$1.44 and in late October a colleague bought gasoline for just \$1.18 a gallon – a price far below the gloomy forecasts of higher gas prices we heard about earlier this year.

Despite the price fluctuations, state revenues for motor fuel taxes remain remarkably stable even though they follow a seasonal cycle. The tax, which is levied at 21 cents per gallon, yielded an average monthly revenue between January 1998 and September 2001 of \$54 million.

This is because the demand for gasoline is slow to respond to changes in price. According to research by BHI Senior Economist Jonathan Haughton, the own-price elasticity of demand for gasoline is -0.15. (Jonathan Haughton and Soumodip Sarkar, “Gasoline Tax as a Corrective Tax: Estimates for the United States, 1970-1991,” *The Energy Journal*, 1996, Vol. 17, No. 2.) That means if prices increase by 10 percent the quantity demanded is only 1.5% less. Even a 50% increase in gasoline prices would reduce purchases by just 7.5%. ❖

In pursuit of principles: The thankless job of state tax policy



State Tax Policy: A Political Perspective

David Brunori, Urban Institute Press, 2001, 156 pages

Reviewed by Frank

The great economist Adam Smith enumerated four principles needed by a market-oriented economy as it established a credible system of public finance. Smith believed that citizens ought to pay taxes according to their ability to pay, which, he thought, best measured the benefits they received from government expenditures. He also maintained that taxes levied should not be arbitrary and should be easy to administer.

Lastly, Smith observed that “every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state.” This is called the “neutrality principle” by modern-day economists.

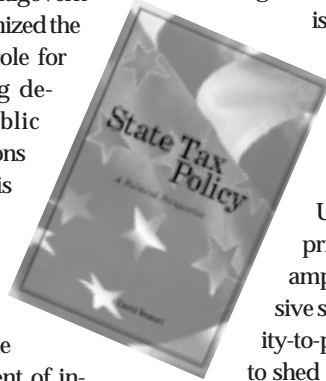
Smith believed in moderate taxation and he held few antigovernment sentiments. He recognized the existence of a legitimate role for government in providing defense, security and public works. Successive generations of liberals have invoked his ability-to-pay standard as providing a basis for progressive income taxes (even though Smith did not have in mind using the tax system as an instrument of income redistribution).

Despite the generality of his prescriptions, Smith’s principles have guided tax scholars for more than two centuries. Among these scholars, there is broad agreement that tax systems should be efficient and broad based – free of the clutter of deductions and exemptions. Another ideal is that taxes should distort business and household behavior as little as possible.

Unfortunately, the voices of Smith and of the generations of scholars who have followed in his footsteps are sometimes not heard at the state level of government. Today, in virtually every state capital, legislators trip over themselves to offer tax breaks for particular individuals or businesses. These tax breaks are often made in the name of fairness or economic development. But in the long run, as any adherent to Smith would explain, they lead to less equitable, less neutral, and more costly tax systems.

When theoreticians complain about this state of affairs, the practical-minded (if not overtly anti-intellectual) state legislator is likely to sneer at their impracticality. As one such legislator recently asked: “Adam Smith? How many jobs can he create in Virginia?”

Journalist, author, educator and lawyer, David Brunori is a Renaissance man who thinks state tax policy is important and that Smith’s principles need to be renewed. His slim volume *State Tax Policy: A Political Perspective* is a well-argued rejoinder to this kind of anti-intellectualism.



Brunori gives state legislators credit where credit is due. Despite constraints, state legislatures have been able to fund services by mixing and matching a variety of taxes. Unfortunately, the states often ignore the principles of sound tax policy. One example is their traditional reliance on regressive sales taxes that violate the Smithian ability-to-pay principle. Another is their inability to shed taxes, such as corporate taxes, that are no longer justifiable

Scholars generally eschew a tax regimen in which states compete for business by conducting a “race to the bottom,” offering one tax break after another until they’ve jeopardized their ability to fund needed services. There is a movement afoot that would invoke the Commerce Clause to prevent interstate competition of this kind.

As Brunori reminds us, however, interstate competition overall is desirable because it promotes innovation, efficiency and responsiveness. Unfortunately narrow, targeted incentives rather than broad measures have become the centerpiece of the “war between the states.”

Brunori suggests that good tax policy at the state level means keeping taxes in check and broad based, while raising enough revenue to provide essential services. Sometimes these goals run into conflict with one another. For example, most professional services are exempt from state taxes; but manufactured goods remain subject to sales

taxes. As the economy changes, this state of affairs cannot continue.

The federal government and most states have proscribed taxes on Internet sales, in part because of the administrative problems that arise when one state attempts to tax the sales of another and in part out of a policy of keeping state taxes low. But a policy of exempting Internet sales from taxation violates the principle that taxes should be broad based and hence, “neutral.”

Some might argue, then, that given the nature of digital commerce, it might just be easier for the federal government to preempt the states by levying a federal sales tax. Doing so would increase simplicity and neutrality but would eliminate the interstate competition that keeps tax rates low. And so goes the debate.

The shift toward targeted tax cuts and Internet avoidance may induce legislators to shift the burdens onto personal income taxpayers. In 1998, personal income taxes surpassed sales taxes in as the leading source of revenue for the states. While Brunori largely ignores the economic effects of stiff income taxes upon production, he acknowledges the public’s newfound intuition that higher personal income taxes place their states at a competitive disadvantage.

As his subtitle points out, Brunori’s book is about politics. But here his analysis falls short. Brunori places far too much trust in state legislatures. “The greatest limitation of direct democracy, however, is that it requires an up or down vote on tax policy measures. Voters must decide to approve or to reject a proposal. There is no room for compromise and no mechanism for negotiation.” But given the self-interest of legislature toward growing government, some tax limitation issues decided at the ballot box provide the kind of certainty legislatures lack. This is a virtue.

Drafting sensible state tax policies is a thankless job. Brunori’s exhortation may be a triumph of hope over experience. But he’s written a thoughtful, worthwhile primer on an increasingly critical subject.

Brunori largely ignores the economic effects of high income taxes upon production, but acknowledges the public’s newfound intuition that stiff personal income taxes place their states at a competitive disadvantage.

In Point of Fact

I s this billable?

A study released last week in Boston offers some grim news for large law firms: they aren't pleasing their clients. A recent survey of more than 175 corporate counsel (who outsource legal work) for Fortune 1000 firms conducted by the Boston-based BTI Consulting Group this year shows nearly 25 percent of clients are dissatisfied with their current law firms, and more than 75 percent wouldn't recommend their primary law firm to others. In addition, BTI's research indicates that those clients plan to reduce the number of law firms they use by over 30 percent and that 42 percent of corporate counsel surveyed are planning to move to competitive bidding for legal needs. The main reason for the deep dissatisfaction, according to the BTI study, is poor client service, followed by over-billing, low-quality work and even "arrogance" on the part of the law firm.

Maggie Mulvihill, "Hub study finds clients of large law firms unhappy," *Boston Herald*, September 11, 2001

Sprawling to a better future

As metropolitan areas, including Boston, consider measures to curb sprawl, a new study

by Tufts University shows some positive sides to suburban growth: more affordable housing and greater opportunities for home ownership, particularly among blacks. The study, by Matthew E. Kahn at the university's Fletcher School of Law and Diplomacy, reflects growing concerns here and across the nation that restrictions on development can reduce the supply of affordable housing in and around major cities. It's a tension that's relevant to Boston with its chronic shortage of housing, according to local community leaders.

Anthony Flint, "Study says sprawl can reduce race gap in home ownership," *Boston Globe*, October 8, 2001.

Nobel wisdom after September 11

Cutting taxes now would promote private spending rather than government spending and provide a supply-side incentive. That is highly relevant for the long run, but not for cyclical stimulus. Here, too, time delay is crucial. The effect of the tax reductions is likely to come into effect when the economy is already on the mend. The one sure result of fiscal stimulus will be to ratchet up the fraction of national income spent by the federal government. Is a permanently larger government the right answer to the terrorist threat?

Milton Friedman, "No More Economic Stimulus Needed" *The Wall Street Journal* October 10, 2001

Lessons from the New Economy: Personal contact still matters.

The information age hasn't devalued face-to-face encounters in doing business. The rise of the Internet, we were told, meant "frictionless capitalism" and "virtual marketplaces." Yet in the past five years, air travel soared and videoconferencing didn't; Americans flew 25% more miles in 2000 than in 1995. E-mail became ubiquitous, but the yearning for physical handshakes didn't abate. "Airlines benefited from the telegraph, from the telephone, from the fax and from the Internet," says Thomas Petzinger, a *Wall Street Journal* reporter who published a history of the airline industry in 1995. "Those methods of communication increased the desire of people to meet one another and be with one another in business situations. The more artificial bandwidth that exists, the more they want the real bandwidth experience." David Wessel, "Attack offers lessons on people and markets," *Wall Street Journal*, September 20, 2001.



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