



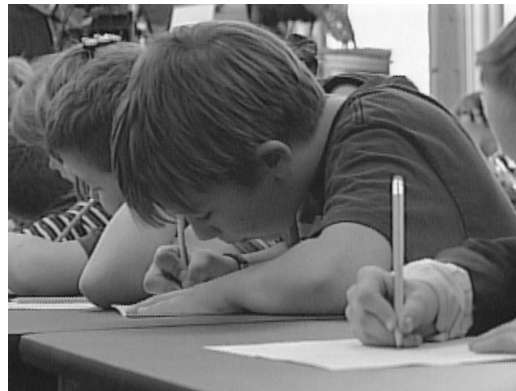
Getting less for more: a hard lesson to learn

The failed promise of Education Reform in Massachusetts

There's no other way to put it. Education Reform is a failure. The fact that new spending on public education has no effect on learning is an old story. But now there is evidence that new spending under this \$3-billion-year program is actually making your kids learn less.

You don't believe it? Then take a look at the Beacon Hill Institute's latest study, *Getting Less for More: Lessons in Massachusetts Education Reform*. One of the features of Education Reform is the annual testing of Bay State 4th, 8th and 10th graders under the Massachusetts Comprehensive Assessment System. In our study, we asked one question about the MCAS test: What do we have to know if we want to predict as accurately as possible how well a school district will perform on that test?

To answer this question, we identified ten factors, including four spending programs, that determine



school performance on the test. We categorized test results by grade, subject and according to how well a school district had performed on prior tests. Then, using state-of-the-art statistical techniques, we conducted more than a hundred estimations to see what determined the 2001 results for each testing category.

Here's what we found: Increased spending either worsened or had no effect on performance in 62 of the 72 categories that we examined.

Increased spending improved performance in only 10 of the categories.

What's most dismaying is what we found about the two programs that have accounted for most of the new spending: raising teachers' salaries and reducing student-teacher ratios. Increased spending in these areas either worsened or had no effect on performance in 35 of the 36 categories we examined and improved performance in only one.

What we have now, therefore, is a glaring double standard. The MCAS holds high school seniors accountable: If they don't pass, they don't graduate. But public school officials don't have to show results for the hundreds of millions of dollars they're spending under the aegis of Education Reform.

The one part of Education Reform that is making a difference is the accountability that the graduation re

continued on page 3

Tying down the grabbing hand of state government Time for a better Bay State tax cap

In November 1986, Massachusetts voters approved a ballot measure that was intended to limit the growth of the state's tax revenues. This "Tax Cap" was based on the principle that state taxes should grow no faster than state taxpayer earnings. The law limits the growth of state tax revenues to the three-year average growth in Massachusetts wages and salaries. If revenue growth exceeds that average growth, then excess revenues are to be returned to the taxpayers in the form of a rebate.

The formula that determines whether, and the amount by which, taxpayers receive a refund is based on a distinction between "allow-

able" and "actual" revenues. Allowable revenues for the current year equal net tax revenues for the previous year, adjusted for the growth in wages and salaries. If actual net tax revenues for the current year exceed allowable net tax revenues, so defined, taxpayers receive a refund equal to the difference.¹

The Tax Cap has not, however, worked as intended. After 15 years, it has limited the growth in tax revenues only once: In 1987, the first year that the Tax Cap was in place, actual revenues exceeded allowable revenues, necessitating a tax refund. Since then, actual revenues have stayed well below allowable revenues.

continued on page 2

IN THIS ISSUE

Voter Guide

BHI Gubernatorial Tax and Fiscal Policy Survey.....4

Analysis

Charitable choices: Donor preferences.....6

BookMark

Government Failure: A Primer in Public Choice, reviewed.....7

In Point of Fact

News of note.....8

A real tax cap

continued from page 1

The ineffectiveness of the existing Tax Cap results from a peculiarity in the calculation of allowable revenues. Under current law, allowable revenues for the current year are calculated by increasing *allowable* revenues for the previous year by the growth of wages and salaries.² This method has been ineffective for limiting tax revenue growth because allowable revenues have grown faster than actual revenues.

The Mass High Tech Method

The Massachusetts High Technology Council has proposed an alternative method that would compute allowable revenues for the current year by applying the growth of wages and salaries to *actual*, not allowable, revenues for the previous year. Table 1, columns (B), (D) and (F) show how this method would have affected tax revenue collections, had it been in place over the period 1990 to 2001. In the recession years, 1990 and 1991, allowable revenues would have exceeded actual revenues, so that the Tax Cap would (as under current law) have been ineffective (the amounts in column D are negative), and taxpayers would have received no refunds. Beginning in 1992, however, actual revenues exceeded what would have been allowable revenues, necessitating tax refunds equal to the difference.

The refund for 1992 would have been \$49,134,000. By 2001 the refund would have grown to \$1,190,095,000. If the

Mass High Tech Method had been in place, taxpayers would have been owed refunds in 11 of the years since 1986. The cumulative result of these refunds would have been the return of about \$10 billion to taxpayers over the period, nearly 6% of actual net revenues collected. Cumulative average refunds would have been about \$1,700 per capita and about \$3,600 per tax filer.

The New State Method

In its FY 2003 budget, the Massachusetts legislature provides a method of its own for capping taxes. This "New State Method" caps the growth of state tax revenue at two percentage points above the growth of the state and local government price deflator (the inflation rate that applies to state and local government purchases).

As Table 1 shows, the New State Method would have been more effective than the Mass High Tech Method in limiting revenue growth in some years but less effective in others. The most important difference lies in tax refunds, for which the two methodologies give very different results, especially for the early years.

The difference lies in how the New State Method disburses actual revenues received by the state in excess of allowable revenues. In any year that the actual tax revenues exceed allowable revenues under the New State Method, the state will be required to apportion this excess in the following manner: 40% to the Stabilization Fund; 35% to the One-Time Capital Projects Improvement Fund; 15% to the Open Space Acquisition Fund; and 10% to the Tax Reduction Fund. Thus taxpayers get only a small portion of the excess, at least so long as the Stabilization Fund remains below capacity.

Because, unlike the Mass High Tech Method, the New State Method does not return all excess revenues to the taxpayers in the form of

refunds, taxpayers would have received cumulatively \$6.6 billion less in refunds under the New State Method than under the Mass High Tech Method.

The reason that 2001 taxpayer refunds would have been similar under either method has to do with a feature of current law that puts a limit on the size of the Stabilization Fund. Under the New State Method, the Stabilization Fund would have reached this limit in 1998. As a result, a portion of the 40% that would have otherwise gone into the Stabilization Fund would, under that method, have gone to the Tax Reduction Fund.

Comparing Methods

The intent of the New State Method is clearly to put taxpayers at the bottom of the pecking order in the distribution of excess revenues. It seems likely that the designers of this method did not anticipate an eventuality in which far more than

continued on page 6

Table 1
Comparison of Mass High Tech Method and New State Method

FY	Tax Revenues (\$000)			Actual - Allowable (\$000)				Transfers to Tax Reduction Fund (\$000)	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)		
	Actual	Allowable: Mass High Tech Method	Allowable: New State Method	Mass High Tech Method	New State Method	Mass High Tech Method	New State Method		
				[A - B]	[A - C]				
1990	8,518,000	9,500,609	8,518,000	-982,609	0	0	0	0	0
1991	8,995,000	9,438,360	8,995,000	-443,360	0	0	0	0	0
1992	9,484,000	9,434,866	9,315,798	49,134	168,202	49,134	16,820	49,134	16,820
1993	9,930,000	9,598,110	9,749,897	331,890	180,103	331,890	18,010	331,890	18,010
1994	10,607,000	9,825,083	10,177,338	781,917	429,662	781,917	42,966	781,917	42,966
1995	11,165,000	10,241,968	10,696,864	923,032	468,136	923,032	46,814	923,032	46,814
1996	12,049,000	10,744,318	11,198,713	1,304,682	850,287	1,304,682	85,029	1,304,682	85,029
1997	12,865,000	11,377,263	11,682,469	1,487,737	1,182,531	1,487,737	118,253	1,487,737	118,253
1998	14,026,000	12,163,735	12,125,942	1,862,265	1,900,058	1,862,265	776,628	1,862,265	776,628
1999	14,291,000	13,078,865	12,599,943	1,212,135	1,691,057	1,212,135	818,161	1,212,135	818,161
2000	15,689,000	14,166,200	13,406,244	1,522,800	2,282,756	1,522,800	959,653	1,522,800	959,653
2001	16,729,000	15,538,905	14,205,273	1,190,095	2,523,727	1,190,095	1,191,859	1,190,095	1,191,859
TOTALS	144,348,000	135,108,282	132,671,479	9,239,718	11,676,521	10,665,687	4,074,193	10,665,687	4,074,193

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Education Reform

continued from page 1

quirement imposes on students. That's why our analysis shows an otherwise unexplained surge in the ability of students, especially 10th graders, to stay out of the "Warning" (which is to say, failing) category of test results.

Now the Massachusetts Teachers Association, which dismisses our statistics out of hand, wants to eviscerate that requirement, too. Statistics and standards – these are both anathema to the MTA, which wants taxpayers to spend more and more on Education Reform without asking any questions about the results. We have to wonder what effect so self-serving a mentality might have on the teachers in whose interests the MTA supposedly labors.

The fact that spending does so little to improve – and may even worsen – school performance should come as no sur-



prise. Educators have known for years that socioeconomic factors outweigh all others in determining how well children learn. Claiming otherwise not only attributes false importance to spending but also causes us to misunderstand what MCAS scores tell us about a school's performance.

Because a school's performance on the MCAS test depends heavily on the socioeconomic character of the community from which that school draws students, we cannot necessarily conclude that a poor showing on that test reflects negatively on

a school's teachers and administrators. We know that a school does a good job when and only when its students do better than we would predict knowing the socioeconomic factors that mostly determine their performance

on these tests.

A good example of a school district that is beating the odds is Everett. By every objective measure, Everett students

Education Spending in Massachusetts

Year	Total Spending	State Aid	Local Contribution	State Share (%)	Local Share (%)
1984	2,439,899,799	910,374,624	1,529,525,175	37	63
1985	2,609,440,126	1,039,420,245	1,570,019,881	40	60
1986	2,833,258,002	1,099,382,416	1,733,875,586	39	61
1987	3,084,766,670	1,240,803,011	1,843,963,659	40	60
1988	3,384,302,162	1,348,049,167	2,036,252,995	40	60
1989	3,692,801,672	1,428,147,254	2,264,654,418	39	61
1990	3,926,038,700	1,221,012,065	2,705,026,635	31	69
1991	4,056,331,858	1,172,296,225	2,884,035,633	29	71
1992	4,070,676,560	1,102,155,351	2,968,521,209	27	73
1993	4,287,184,895	1,288,777,773	2,998,407,122	30	70
1994	4,539,959,338	1,432,831,982	3,107,127,356	32	68
1995	4,878,239,998	1,622,681,700	3,255,558,298	33	67
1996	5,227,135,081	1,831,653,335	3,395,481,746	35	65
1997	5,592,649,791	2,061,572,182	3,531,077,609	37	63
1998	6,012,310,841	2,288,742,702	3,723,568,139	38	62
1999	6,434,570,684	2,566,134,016	3,868,436,668	40	60
2000	6,896,659,348	2,803,320,443	4,093,338,905	41	59
2001	7,295,228,124	2,990,396,788	4,304,831,336	41	59

Source: Massachusetts Department of Education

should have done poorly on the 2001 MCAS test. And by the usual standards, they did. Of 218 school districts, Everett ranked 186th in terms of its success in getting 10th graders to pass the test. Yet, when we take into account the socioeconomic conditions and financial resources it has to work with, Everett ranked 6th – a tribute to its teachers, principals, families and students.

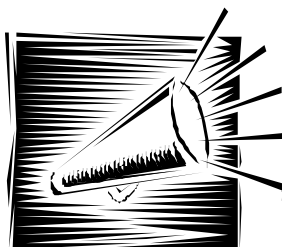
There are other such school districts that we should study for their successes – and failures. But the guardians and beneficiaries of Education Reform de-emphasize these examples for one simple reason: Taking them into account would mean admitting that new spending has nothing to do with such successes as we can observe.

The 2002 MCAS test results are just being released. Be prepared for further celebration over the success of Education Reform, along with further hand wringing about the fact that many seniors won't be graduating next year.

And be prepared for one more thing: No one in the education establishment will give a single thought to the hundreds of millions of dollars that are being wasted in this process. That will change only when voters and taxpayers make up their minds that it is Education Reform that needs reform.

A copy of *Getting Less for More: Lessons in Massachusetts Education Reform* and the BHI Education Assessment Model rankings can be found at www.beaconhill.org. ❖

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BHI 2002 Gubernatorial Survey on Tax and Fiscal Policy



In early June 2002, the Beacon Hill Institute surveyed all the candidates for Massachusetts governor about their positions on a variety of state fiscal issues. We received responses from Democrats Warren Tolman, Robert Reich, Shannon O'Brien and Steve Grossman (who dropped out of the race) and from Republican Mitt Romney and Libertarian Carla Howell. Two candidates, Senate President Tom Birmingham, Democrat, and Green Party nominee Jill Stein did not respond. A copy of the survey and more detailed answers offered by the candidates on tax policy can be found at our web site at <http://www.beaconhill.org>.

A note on the responses: We asked respondents to reply on the assumption that the taxes in effect for the purpose of the questionnaire were the same as those in effect at the time the questionnaire was distributed. The Legislature subsequently raised taxes on income, capital gains and tobacco. Readers should interpret the following questions as applying to Tax Year 2001.

D=Democrat; L=Libertarian; R=Republican
d/t/a = Declined to answer question. d/t/s = declined to specify.



Carla Howell (L)



Shannon O'Brien (D)



Robert Reich (D)



Mitt Romney (R)



Warren Tolman (D)

Do you support the voter-approved rollback of the state personal income tax to 5% by 2003?	Yes	No	No	Yes ¹	Yes
If you do not support the rollback, to which rate would you set the income tax?	---	5.3%	5.3%	---	---
If you do not support the rollback, would you set the rollback aside on a temporary or permanent basis?	---	Temporary	Temporary	---	---
Do you favor increasing the capital gains tax?	No	Yes ¹	Yes	No	d/t/a ¹
Do you favor increasing the state sales tax?	No	No	No	No	No
Do you favor rescinding the voter-approved charitable tax deduction?	No	No	No	No	No
Concerning the personal exemption, do you favor an increase, a decrease or no change?	Abolish Income Tax ¹	No change from tax year 2001	No change from tax year 2001	No change from tax year 2001	d/t/a ¹
Do you favor modifying Proposition 2 1/2 which limits property taxes?	Yes ²	No	No	No	No
Do you favor increasing corporate income taxes?	No	No	No	No	No
Do you favor targeted tax cuts such as the ones passed by the legislature over the past decade for manufacturing, mutual fund and insurance industries?	No	Yes	No	d/t/a	Yes ²
Do you favor the renewal of research and development credits for business?	Yes ³	Yes	Yes	d/t/a	Yes
Do you favor increasing tobacco taxes?	No	Yes	Yes	d/t/a	Yes
Do you favor increasing gasoline taxes?	No	Yes ³	Yes ¹	d/t/a	Yes ³
Do you favor tighter controls on the growth of state government? If so, which controls do you favor: tax cap, cap on all spending, cap on capital spending?	Yes on all	Yes d/t/s	Yes d/t/s	d/t/a	Yes d/t/s
If elected would you launch any new spending initiatives?	No	Use federal money to create Literacy Institute and allocate money for teacher training. Increase capital spending by \$64 million for affordable housing by cutting other debt.	Grant tax credits for paid family leave.	d/t/a	d/t/a

ENDNOTES:

¹Favors Question 1, which would abolish state income tax. "Using 'supremacy' rule, would change Prop 2 1/2 to make it more difficult to raise taxes. But expresses reservations about imposing different tax rates on different taxpayers.

²Would roll back tax increases recently passed by the Legislature and would balance budget by eliminating waste and by holding down spending.

³Would combine higher excise tax with roll back of tolls and consolidation of Turnpike operations into the Massachusetts Highway Department.

⁴Depends on revenue and the elimination of waste. ² Favors financial services tax break, opposes "Raytheon" tax break. ³ To offset toll hikes.

⁵Expand full-day kindergarten and establish single-payer health care system.



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A real tax cap

continued from page 2

10% of these excess revenues would be returned to taxpayers. Should the Stabilization Fund reach capacity, it seems likely, furthermore, that the legislature would simply raise the limit on the Stabilization Fund, rather than let the Tax Reduction Fund balloon to the level shown for 2001.

The Mass High Tech Method is therefore superior to the New State Method for guaranteeing that all revenues collected in excess of allowable revenues are returned to the taxpayer, rather than absorbed into government funds from which they can be easily diverted into new state expenditures. For a revenue limitation to

be effective, it must translate as well into a spending limitation.

There is one more consideration: The most effective way to limit the growth of tax revenues is to reduce tax rates. Tax refunds are temporary and do nothing to reduce marginal tax rates or therefore to increase incentives to work, save, locate and invest in Massachusetts. This argues for a permanent reduction in tax rates of the kind mandated by the voters in 2000 and negated by the legislature in 2002. A permanent reduction in tax rates, combined with the Mass High Tech Method outlined above, would combine an economic stimulus with an effective curb on the size of government.

ENDNOTES

¹ Net tax revenues equal actual tax revenues minus the excise derived and retained by local government units.

² The formula, under current law, is: Allowable net tax revenues for the current year equal allowable net tax revenues for the previous year multiplied by (1 + the three-year average growth of wages and salaries).



Charitable choices

Figure 1
Average Household Contribution by Type of Charity
1995-1998
(1993 Dollars)

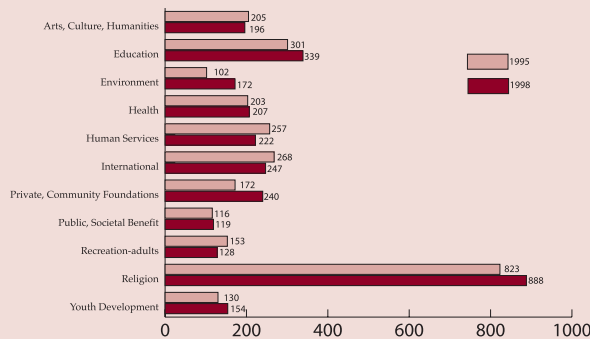
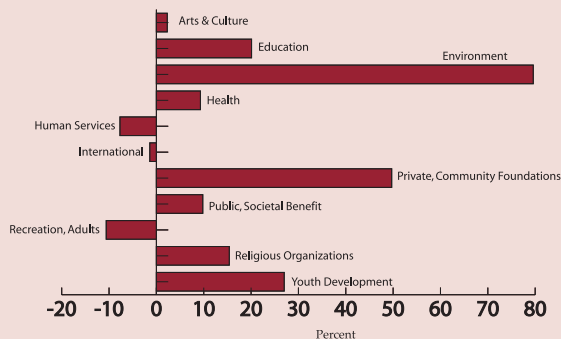


Figure 2
Average Household Contribution Growth by Type
1995-1998
(1993 Dollars)



When the call goes out for help, Americans are ready to respond with time, money and resources, despite signs of a slowing economy. According to a survey conducted by Independent Sector, a national umbrella group of nonprofit organizations, about 89 percent of US households made charitable contributions in 2000. The average household gave \$1,620 or 3.2 percent of its income.

According to the latest figures, donors continue to favor religious organizations (See Figure 1). The average donation, in 1998, to a religious organization (expressed in 1993 dollars) was \$888, which is more than twice the average amount given to educational institutions (\$339). But a trend away from religious, and toward secular causes, seems to be in evidence.

Donations to environmental groups, community foundations, education and youth development organizations have been growing faster than donations to churches (See Figure 2). Donations to groups concerned with environmental issues grew by 79.6 percent between 1995 and 1998 while donations to community foundations increased by 49.7 percent. At the same time, donations to religious organizations grew by only 15.4 percent. It will be interesting to see how the recent revelations about the Catholic Church will affect these statistics.

Other types of charities showed negative or very slow growth. Human services contributions declined by 7.7 percent while adult recreation declined by 10.6 percent. Charitable contributions to arts and culture grew by only 2.3 percent.

Source: Independent Sector, *Statistical Abstract of the United States: 2001*

No real public choices: The triumph of producers over consumers

 **Government Failure: A Primer in Public Choice**
Gordon Tullock, Arthur Seldon and Gordon L. Brady, Cato Institute, 2002, 193 pages. Reviewed by Frank Conte

In 1986 the Swedish Academy of Sciences awarded the Nobel Prize in Economics to James Buchanan, the father of the public choice school of economics.

Buchanan's award was remarkable in that the academy recognized an economist who has spent his professional career articulating the idea that there was no "public interest" separate from the interests of the individual voters who make up the body politic. This signaled a sea change because, even in the throes of the Reagan Revolution, the predominant idea was that the "public interest" somehow represented a higher value than the "private interest."

By bestowing the award, the academy "did something for which the world has been waiting 18 years, ever since the prize was established in 1968. It did something controversial," wrote the *Boston Globe's* David Warsh. "It threw a slow-ticking bomb into the domestic politics of Sweden, Europe and the United States." Policy analysis has never been the same.

If markets can fail, so can governments. If consumers are driven by self-interest so is the iron triangle of government and its supplicants: activists, politicians and lobbyists. As one observer noted, the idea that the consumer becomes a saint in the voting booth is pure delusion. Or as another noted, "No student of public choice would feel that the establishment of a national health service in the US would mean that doctors would work devotedly to improve the health of the citizens."

One tangible result of the founding by Buchanan and others of the public choice school is the emergence of an intellectually respectable tax limitation movement at the state level. In fact, the underpinnings of Proposition 13 in California and Proposition 2 1/2 in Massachusetts were drawn from Buchanan's research. Today, public choice is also responsible for the renewed interest in federalism and interstate competition.

Eschewing the mathematical models of highly technical economists, Buchanan simplified the analysis and placed at dead center "the rules of exchange" upon which

much policymaking hinges. "The question of rules that economic societies adopt, the reasons that they adopt them, and the superiority of some sets of rules to others: all these are on the table in economics to stay," wrote Warsh. All thanks to Buchanan.

Buchanan had the good sense to discount the romance of democratic politics and apply methodically the tools of his trade to the political arena. He traversed not only economics but also political science. He reintroduced the insight of Thomas Hobbes's *Leviathan* and James Madison's mischievous factions. And he followed Madison to the conclusion that men are not angels, least of all in government. If the end game of democracy is over-government without constitutional limits, then, warned Buchanan, liberty itself is at peril.

It was Adam Smith who in 1776 remarked "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Buchanan and public choice economists view democratic institutions in a similar light. Seldom does government meet to serve the public interest. Instead it convenes to expand the dominion of those who make or understand the rules. It is as if government, as the sole provider of non-rival public goods, inherently must grow in size and scope because the demands of thousands of well-organized rent-seeking producers legislatively prevail over the unarticulated aspirations of millions of unorganized, rationally ignorant consumers or voters. The conspiracy here, if it can be called one, works because it enables the kind of economic transfers that are well-hidden from the public eye.

In *Government Failure: A Primer in Public Choice*, three authors assembled by the Cato Institute – Gordon Tullock (Buchanan's longtime collaborator), Arthur Seldon and

The analysis of public choice reveals that collective choice-making in government has made the fundamental error of putting the vaguely identified interests of the people as voters before their clearly perceived interests as consumers.

Gordon L. Brady – offer a brisk introduction to public choice. It could not have arrived at a better time. With faith in capitalism faltering due to the corporate accounting scandals, a stagnating stock market and growing unemployment, several economists and business leaders have been calling for a double-dose of government re-regulation at a level not called for since the 1970s. It is as if Buchanan's lessons have once again been ignored.

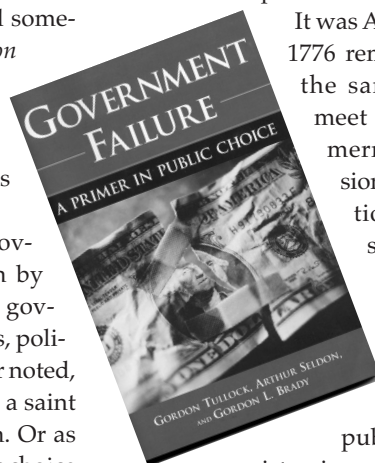
The hyperventilated Fourth Estate would do well to absorb the authors' incisive arguments. It will not easy.

For journalists to be able to deploy public choice analysis as a viable tool requires the abandonment of old beliefs about the democratic process such as the nicety that "every vote counts" or that individuals are as informed about their public choices as they are about their private choices. It is not apathy, the journalists' favorite hobbyhorse, that presents us with a paradox but poor information. Voters cannot inform themselves about their choices in the voting booth as effectively as they inform themselves about their choices in, say, the neighborhood grocery store. The cost of political information is simply too high, compared to the benefits of casting an informed vote.

Politicians adapt in their own way to this information vacuum. Since the days of the Roman Empire the trading of votes has been a common feature of legislatures. It was Seneca who observed wryly that "You roll my log and I will roll yours." It is Congress that has made it an art form.

The authors make clear that the logrolling and rent-seeking strategies, from pro

continued on page 8



In Point of Fact

A

real member of the "Leave Us Alone" coalition

Stef Laing was perfectly happy without electricity or

running water or indoor plumbing on the isolated four acres where he has spent the past eight summers. All the gardener sought was a simple life in his isolated cabin in the woods. But life hasn't been simple for Laing or this rural mountain town on the Vermont border since a former town official spotted his outhouse two summers ago. The locally elected Board of Health invoked the laws of the state of Massachusetts and ordered Laing to install a septic system and hot and cold running water in his immaculate two-room cabin. Residents didn't see the need for outrage over the outhouse and some even voted out of office health board members who opposed Laing's privy.

"Man's fight to forgo plumbing divides rural community," Trudy Tynan, *Associated Press*, July 6, 2002.

Recycling the law of unintended consequences

Mayor Thomas M. Menino wants to have recycling in Boston and wants city

contractors to pay a "living wage," but it now appears he can't have both. The three companies bidding for the city's recycling contract are refusing to comply with Boston's living wage ordinance, which requests that city contractors pay workers \$10.25 an hour... more than twice the federal minimum wage. The city says there are no other bidders, so it faces the choice between ending recycling when the existing contract expires or issuing a waiver that would allow the companies to pay an estimated \$3 less per hour in wages.

"Bidders refusing 'Living Wage' law," Sarah Schweitzer, *Boston Globe*, June 14, 2002.

A tobacco road to smoker sovereignty

Call it tax avoidance – and call it completely legal. Don Kemler is one of many New Yorkers who visit the tiny Unkechaug Indian Nation in Suffolk County to buy tax-free cigarettes. Unwilling to pay tobacco taxes — \$1.50 a pack to the state, and now an additional \$1.50 a pack in city taxes for New York City smokers – these New Yorkers buy off-brand cigarettes for just over \$2 a pack, as opposed to nearly \$7 a pack for city smokers. Shoppers who visit the store tend to buy two to five cartons at a time. Still the state seems to have no intention of changing course. And Chief Harry Wallace and his fellow shop owners in several Indian nations feel that

their right to sell tax-free cigarettes (and gasoline) is nothing short of the lawful exercise of their sovereignty. "Before we had tobacco shops, we had a welfare economy – and the state was paying for that. We couldn't focus on our political, social and educational rights because we were focused on day-to-day survival. Now we're not. Now we are empowered," he says.

"Read their Lips: No Taxes," Hope Reeves, *New York Times*, July 8, 2002.

Earned Income Tax Transaction Costs

A federal tax credit intended to lift millions of low-income families out of poverty has become a financial bonanza for the two leading tax preparation companies and the companies they work with to arrange high-cost loans, according to a recent study. Tax preparers and lenders take in about \$1.75 billion in fees to arrange payment each year of some \$30 billion in earned-income tax credits to working parents, researchers from the Brookings Institution and the Progressive Policy Institute found after analyzing detailed Internal Revenue Service data. Nearly 7 cents of every dollar of aid that goes to these poor families winds up with the lenders and preparers, the study found.

"Tax Credit Is Financial Bonanza for 2 Big Tax Preparers," David Cay Johnston, *New York Times*, May 21, 2002.

BookMark

continued from page 7

tectionist policies and agricultural subsidies to the assignment of Internet domains and universal telecommunications services, are facilitated by rational ignorance. The end result is that voters wind up voting for individuals and policies that are detrimental to their own interests.

A modern example of rent-seeking concerns universal telephone service. Congress has a policy of providing the rural poor with access to phone service. Most economists would solve this problem through the simple expedient of outright cash grants or

"telecommunications stamps" that could be redeemed for service.

Instead Congress prefers the economically inefficient method of imposing universal service charges on all suppliers. This ends up giving cover to the iron triangle of activists, lobbyists and politicians who jockey over the magnitude and division of the revenues yielded by service charges. By controlling the "rules of exchange" Congress is able to define what exactly universal service means. Given the rollout of new technologies, this aspect of Telecommunications Act of 1996 "is an incentive to lobby and litigate to broaden the set of services that favored groups will receive."

Tullock, Seldon and Brady are optimistic about the future. They see this kind of rent-seeking as on the decline. "Politicians will have to accept with humility that their years of dominating life are passing," writes Seldon.

If only they were right. Unfortunately, the tendency for people to believe that "government ought to do something" in response to an array of social and economic problems is strong and more likely on the rise. Whether the voters will face up to the true costs of over-government remains an open question, as, therefore, does the practical influence of the public choice school on public choices. ❖

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