



What the initiative process shows

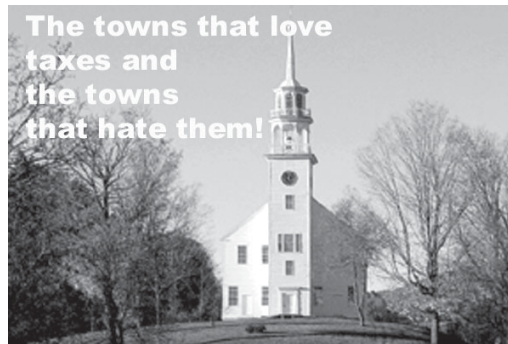
The political geography of voter tax preferences in Massachusetts

In 1956, economist Charles Tiebout set out to explain how people choose the communities in which they live. When a family buys a home, as any realtor will remind us, they are also buying a community. Tiebout took this idea seriously.

For Tiebout, people choose a community in which to live by sorting themselves out among like-minded people. This goes beyond simple racial or ethnic affinity or diversity. Tiebout considered people's location decisions according to their willingness to pay taxes and according to their demand for public goods and services such as schools, open space, cultural amenities and the like.

Tiebout observed that some people want to live in high-tax, high-public-service communities while

others want to live in low-tax, low-public-service communities. That they do so does not reflect negatively on either choice but shows



how diverse communities accommodate people with diverse tastes.

One of the key elements of the Tiebout model is the notion that people "vote with their feet." If taxes are high in one community and some residents don't want all the public services offered by that community, they can

move somewhere else that imposes lower taxes and offers fewer services. Likewise, if services are poor, they can move to another community that offers better services and higher taxes.

In the end, this migration from one community to another reaches an equilibrium, in which, much like the marketplace, the amenities offered by an individual community reflect the demand for public services and how much the people in that community are willing to pay for them. The Tiebout model shows how "like minded people tend to congregate" when it comes to taxes and public spending.

In an effort to see how people thus sort themselves out in Massachusetts, the Beacon Hill Institute examined the voting records of the 351 cities and towns in Massachusetts on major state referenda since 1980 and on Proposition 2 1/2 overrides since

continued on page 4

Massachusetts tax reformers need a new strategy

TABORing in the tax cut arena

by Michael New

One of the biggest surprises to come out of the 2002 election was the strong showing of Massachusetts' Question 1, which proposed abolishing the state income tax. Falling less than five percentage points short of a majority, the strong showing for Question 1 will likely inspire Massachusetts tax cutters to sponsor a similar anti-tax initiative in 2004. Some are proposing the abolition of the state's excise tax.

While the initiative process is a good way to broaden the tax policy debate, it is unfortunate that tax reformers are falling into many of the same strategic pitfalls in which their predecessors fell 25 years ago. After all, evidence indicates

that legislatures often respond to these narrow tax limitations by raising other, less visible taxes to compensate for the revenue shortfall.

A textbook example of this phenomena occurred 25 years ago after the passage of California's Proposition 13. Proposition 13 did an outstanding job at providing needed short-term tax relief for homeowners. Unfortunately, however, since expenditures were not restrained, spending continued to rise and other taxes were increased. For instance, in the years following the passage of Proposition 13, California raised the income tax, the sales tax, and taxes on beer, wine, and cigarettes. During the early 1990s, Governor Pete Wilson even proposed increasing taxes on snacks. This vicious cycle of spending and taxing is the root cause of California's

continued on page 2

IN THIS ISSUE

Analysis

Massachusetts needs a Taxpayer Bill of Rights.....1

News

Summer intern program offers real world experience.....3

BookMark

Tax Justice: The Ongoing Debate, reviewed.....6

Quick Chart

Charitable Choices Revisited.7

TABOR

continued from page 1

current fiscal mess.

However, the past decade is proof that there are superior strategies for limiting the size of government. In fact, broader limitations on total expenditures and total revenues have been quietly enjoying a great deal of success in recent years, Colorado's Taxpayer Bill of Rights (TABOR), which was passed by a citizen initiative in 1992 is the best example of such a limit.

TABOR possesses two features that have generated tax relief for Colorado residents. First, TABOR places a tight cap on all state expenditures, limiting increases to the inflation rate plus population growth. Second, it mandates immediate refunds of all surplus revenues. As a result, when the state collects revenues above the limit set by TABOR, Colorado taxpayers are entitled to a rebate. Overall, between 1997 and 2002, Colorado has reduced taxes more than any other state, issuing annual tax rebates that have totaled more than \$3.2 billion.

These tax reductions have been a boon to Colorado's economy. Between 1995 and 2002 total personal income grew by over 61% in Colorado as compared to only 44% nationwide. Similarly between 1995 and 2001 Colorado's Gross State Product grew by over 59%, while nationally the rate of growth was just over 38%. Overall, Colorado ranked second only to Nevada in both gross state product growth and personal income growth during this time span. BHI's *State Competitiveness Report 2001* ranked Colorado sixth in terms of its ability to sustain a high level of per capita income and economic growth.

In addition to strengthening the economy, TABOR has also forced Colorado residents to see the costs inherent in government programs. In other states, residents often support higher government spending because they can see the benefits of a particular program, but remain blissfully unaware of the costs that they, and other taxpayers, will be forced to bear.

However, in Colorado the annual tax rebates bring these tradeoffs clearly into focus. In every year from 1993 to 1999, there was a proposal on the ballot either to raise taxes or to increase spending in excess of

the TABOR limit.

Knowing these initiatives would markedly reduce the size of their annual tax rebate, voters soundly defeated each of these measures. In 2000 a spending increase for Colorado schools did pass. Nonetheless, Colorado taxpayers still received over \$900 million in tax rebates from the fiscal 2000 surplus.

An approach similar to TABOR would likely enjoy more political success in Massachusetts than a proposal to abolish the state income tax. Reasonable people can disagree about the extent to which state services would have to be reduced if the income tax were abolished. However, such grandiose proposals are very easy for public sector unions and other opponents to demonize and caricature. Conversely, a tight expenditure limit would not require drastic short-term budget cuts. Additionally, this approach has actually enjoyed some success in Massachusetts.

In 1986 Massachusetts voters enacted an expenditure limit. But because the income limits are unrealistically high, the 1986 voter approved tax cap has not constrained budgetary growth. Additionally, the FY 2003 budget signed by Governor Swift included a budget cap that will limit annual expenditure increases to two percent plus the rate of inflation.

This is an important first step. However, this limit is statutory, not constitutional. Furthermore, it lacks provisions that would result in tax relief during times of surplus. Last year the Beacon Hill Institute drafted an even more restrictive tax cap that would limit the growth of government. (See *NewsLink*, Summer 2002). What's needed today is the leadership to educate the public about the benefits of limits like TABOR.

Now, all of this is not to say that narrow tax reductions are of no use. Indeed, both California's Proposition 13 and Massachusetts' Proposition 2 1/2 continue to be successful in limiting property taxes in their respective states. They highlight the local preferences for either more services or lower taxes. Last year's

While the initiative process is a good way to broaden the tax policy debate, it is unfortunate that tax reformers are falling into many of the same strategic pitfalls in which their predecessors fell 25 years ago.

strong showing of support of Question 1 proves that the anti-tax strain in Massachusetts is alive and well. In fact, the strong showing for Question 1 will probably make Governor Romney and the legislature more hesitant to propose tax increases in the future notwithstanding the current pressure to increase fees.

Still, if Massachusetts' voters are serious about placing a long-term limit on the size of government, they should consider proposing a broad spending limit modeled after Colorado's Taxpayer Bill of Rights.

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NewsLink is published quarterly by the Beacon Hill Institute for Public Policy Research at Suffolk University. The Beacon Hill Institute focuses on federal, state and local economic policies as they affect citizens and businesses, particularly in Massachusetts. The institute uses state-of-the-art statistical, mathematical and econometric methods to provide timely and readable analyses that help voters, policy makers and opinion leaders understand today's leading public policy issues.

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BHI summer intern program offers real work experience

Drawing up public opinion surveys, placing telephone calls to government officials, pulling the latest charitable statistics down from the web, crunching the latest property tax data in their spreadsheets and running off to the next meeting. These are just a few of the tasks that BHI's interns have been undertaking all summer. Now in its third year, the BHI Summer Internship Program gives students and graduates a first-hand look into the machinery of a think tank while offering valuable work experience.

"Our interns spend very little of their time on clerical work. Most of their time is spent assisting staff economists with their research," says Rebecca Moryl, Director of Operations, who manages the intern program.

"Two minutes into my first day at work, I realized that my intern experience with the Beacon Hill Institute would extend well beyond my expectations," says Rebecca Gordon, a graduate of Cornell University (BS Economics 2003). "I entered a meeting with six of my co-workers who were excitedly talking about an upcoming project. Everyone, intern or economist, had the chance to contribute their opinion, and to analyze the nature of the project."

Emily Bovaird, a Princeton, Massachusetts native and rising senior at George Washington University in Washington, DC agreed, saying, "This internship has given me the feeling that the work that I was doing was significant."

Pam Rosen, who recently received her Master's degree in Economics from Boston University, compared her classroom instruction with the real world practice of economic research. "Experiencing the application of economic analysis in public policy is quite different from what I learned in the classroom and I enjoyed seeing how many details are pursued," she said.

Establishing a friendly environment where interns can contribute is critical to the success of the program. The program helps students develop critical workplace skills

including communication, interpersonal and computer skills.

"I think what made the greatest impression on me was the level of help from the staff. It was important to the staff that I was learning new skills," said Rosen, a California native. "This internship helped me realize how one can affect change with public policy."

Amina Shabani, an economics major from Suffolk University agrees.

"I was very nervous at the beginning and I wanted to make a good impression since I had little experience in public policy analysis," she notes. "Everyone was very helpful and expected me to give my best. That was very encouraging since I could feel that my ideas were being heard and I was contributing to the project."

A native of Burundi, Shabani worked with several members of a group from Ghana who attended a seminar in early June organized by BHI Senior Economist Jonathan Haughton. The group learned to generate the kind of competitiveness indicators that could guide public officials as they pursue economic development.

"I loved working on the Ghana project," she says. "I could relate to it and my research on upgrading housing for the poor and waste management issues made me realize how failed policies affected society."

Doug Giuffre, a Masters in Economic Policy candidate at Suffolk University summed up the comments of all this summer's interns. Of his BHI internship Giuffre said, "I was required to take the initiative and accomplish tasks, while applying the skills I had learned in the classroom. I gained confidence that I can perform up to, and even surpass, expectations in my career. I would highly recommend a Beacon Hill Institute internship to any student looking to gain 'real world' experience."

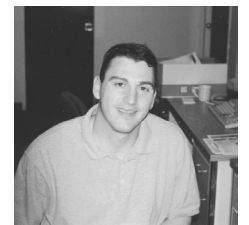
Busy at BHI



Amina Shabani



Rebecca Gordon



Doug Giuffre



Charles Gibbons



Emily Bovaird



Pam Rosen

"The role of a BHI intern requires the taking of initiatives to accomplish tasks, while applying the skills I learned in the classroom."

— Doug Giuffre, Summer Intern



Tax preferences

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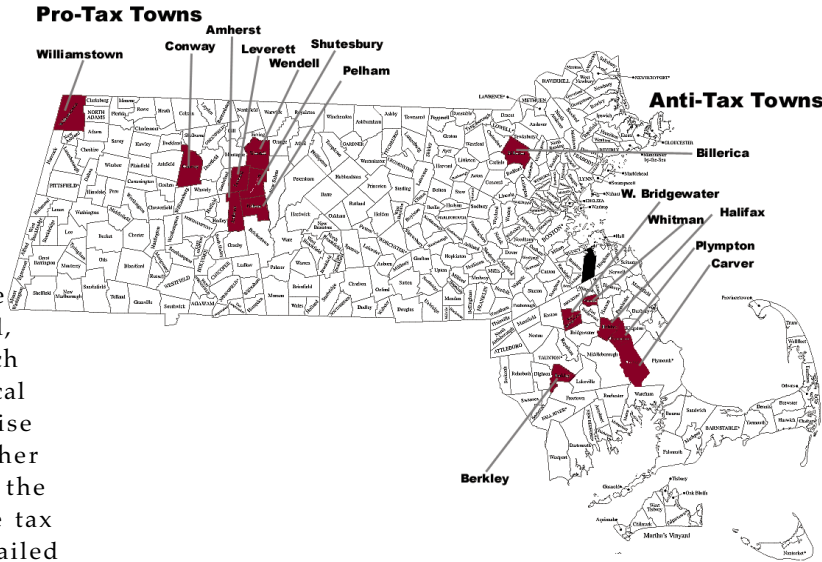
1983. The goal was to determine which communities in the Commonwealth meet the preferences of persons who prefer limited government and which meet the preferences of people who prefer more expansive government. We can label these communities, respectively, as "anti-tax" and "pro-tax."

We considered seven major ballot questions since 1980, beginning with the grandfather of them all, Proposition 2 1/2, which limited the ability of local governments to raise property taxes. The other questions included the successful repeal of the tax surcharge (1986), the failed rollback of the personal income tax rate to 4.25% (1990); the successful attempt to raise the cigarette tax (1992); the failed attempt to institute a graduated income tax (1994); the successful rollback of the personal income to 5% (2000) and the failed attempt to abolish the state income tax (2002).

After tabulating the data, we identified the top seven anti-tax towns and the top seven pro-tax towns. The top seven

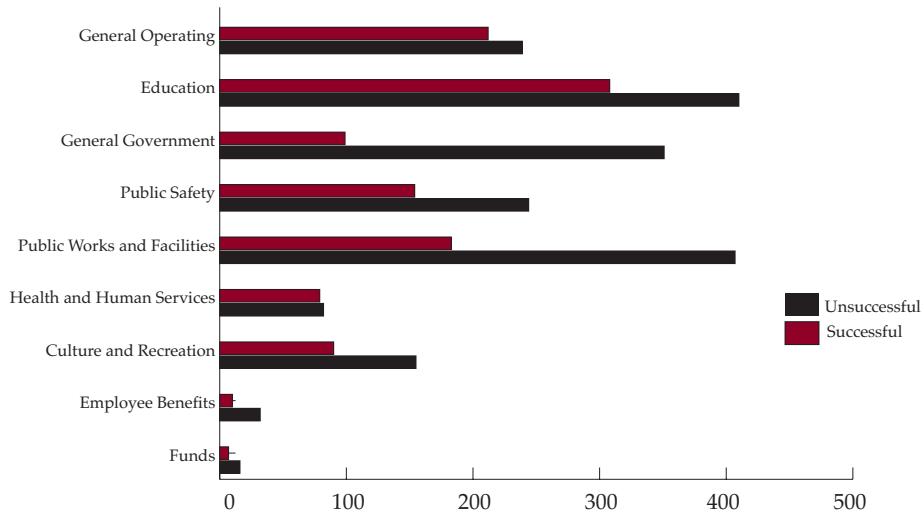
anti-tax towns are Berkley, Billerica, Carver, Halifax, Plympton, West Bridgewater and Whitman. The majority of voters in these towns always declined to raise state taxes and was less willing to raise them locally.

The pro-tax towns are: Amherst, Conway, Leverett, Pelham, Shutesbury, Wendell and Williamstown. On every major statewide voter referendum, the majorities in these towns opted for increased taxation.



We then considered Proposition 2 1/2 overrides in all 14 communities. We found that preferences to raise or cut taxes at the local level fairly reflected or cut taxes at the state level. Since 1983, only eight of 64 overrides were successful in our anti-tax towns. Three towns, Berkley, Billerica and Whitman, rejected every appeal since 1983 to override Proposition 2 1/2.

Attempted Proposition 2 1/2 Overrides by Type
1990-2003
All Cities and Towns



Source: Massachusetts Department of Revenue

Sorting themselves out: Voter tax preferences

The story is predictably much the opposite for the pro-tax towns. Thirty-seven of the 63 attempts to override Proposition 2 1/2 in these towns – more than half – were successful in increasing local property tax levies. Only one pro-tax town, Wendell, rejected more attempts to override Proposition 2 1/2 than it approved. The town of Pelham approved all six of the overrides taken up since 1983.

Pro-tax or anti-tax, it appears that different communities permit different voters to accommodate their preferences, much as the Tiebout model predicts. If you want to live in a community that's open to more spending, take a tip from Horace Greeley: Take Route 2 west. We found the towns most open to higher taxes to be located in the western part of the state. Rural Massachusetts offers both beauty and a preference for expansive government.

In contrast, people with the most fervent anti-tax sentiments tend, with one exception, to gravitate toward the southeastern portion of the state. If you are looking for towns that accommodate anti-tax preferences, go south or take Route 3A straight to Billerica.

How does your city or town lie on the tax continuum? You can discern your locality's tax preferences by visiting www.beaconhill.org, where we've posted the voting records of all 351 cities and towns on the major state tax questions of the past 23 years.

Director of Research John Barrett and intern Charles Gibbons assisted in the preparation of this article.



"Anti-Tax Towns"	1980	1986	1990	1992	1994	2000	2002	1983-2003	Detail	
	Proposition 2 1/2	Repeal Surcharge	Rollback PIT Rate	Raise Cigarette Tax	Grad Tax	Rollback PIT Rate	Abolish PIT	Number of Override Attempts	Approved	Failed
Berkley	YES	YES	YES	NO	NO	YES	YES	3	0	3
Billerica	YES	YES	YES	NO	NO	YES	YES	14	0	14
Carver	YES	YES	YES	NO	NO	YES	YES	7	2	5
Halifax	YES	YES	YES	NO	NO	YES	YES	18	3	15
Plympton	YES	YES	YES	NO	NO	YES	YES	4	2	2
West Bridgewater	YES	YES	YES	NO	NO	YES	YES	5	1	4
Whitman	YES	YES	YES	NO	NO	YES	YES	13	0	13

Yes = Antitax No=AntiTax

"Pro-Tax Towns"	1980	1986	1990	1992	1994	2000	2002	1983-2003	Detail	
	Proposition 2 1/2	Repeal Surcharge	Rollback PIT Rate	Raise Cigarette Tax	Grad Tax	Rollback PIT	Abolish PIT	Number of Override Attempts	Approved	Failed
Amherst	NO	NO	NO	YES	YES	NO	NO	10	5	5
Conway	NO	NO	NO	YES	YES	NO	NO	13	8	5
Leverett	NO	NO	NO	YES	YES	NO	NO	14	9	5
Pelham	NO	NO	NO	YES	YES	NO	NO	6	6	0
Shutesbury	NO	NO	NO	YES	YES	NO	NO	3	3	0
Wendell	NO	NO	NO	YES	YES	NO	NO	15	5	10
Williamstown	NO	NO	NO	YES	YES	NO	NO	2	1	1

No=ProTax Yes=ProTax

Source: Secretary of State, Elections Division, *Public Document 43* for various years, Department of Revenue

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Bookmark

Progressive taxation as 'good manners'?

Tax Justice: The Ongoing Debate

Edited by Joseph J. Thorndike and Dennis J. Ventry, Jr., The Urban Institute Press, 2002, 296 pages.

In 1953, two professors Walter J. Blum and Harry Kalven, Jr. published a seminal work, *The Uneasy Case for Progressive Taxation*. The short essay was published as the nation, fresh from Dwight D. Eisenhower's victory, was considering a constitutional proposal for a "max tax" that would cap federal income tax rates at 25 percent. The proposal was popular among voters and elected officials. But as with almost any effort to change the Constitution, the "max tax" soon fell off the political map. But a debate over tax justice or "fairness" ensued.

Drawing on political history, Blum and Kalven found that after nearly a half century, "Progressive taxation is now regarded as one of the central ideas of modern democratic capitalism and is widely accepted as a secure policy commitment which does not require serious examination."

But to economists such an idea was neither comforting nor rigorous. What the authors sought was not sociological validation of the graduated income tax but sound economic reasoning. They found little encouragement for the idea of a graduated income tax in the corpus of economic analysis: The graduated income tax, they found, yields little revenue, clutters the tax code, and stifles risk-taking. "It is hard to gain much comfort from the special arguments, however intricate their formulations, constructed on notions of benefit, sacrifice, ability to pay or economic stability" wrote Blum and Kalven.

Having thrown up their hands in despair in part because fairness is hard to define, economists watched as political considerations framed the debate over fairness. Adam Smith, the political economist, did not help matters by simultaneously maintaining two contradictory goals for a viable tax policy. Taxation of individuals "ought to contribute to the support of government, as nearly as possible, according to their respective abili-

ties [ability to pay], that is in proportion to the revenue which they respectively enjoy under the protection of the state [benefit taxation]."

Should we treat all people equally (the so-called horizontal view)? Or should we, at some point, treat them differently on the basis of "ability to pay" (the so-called vertical view)?

The debate over tax policy and fairness became the domain not of economists but of political philosophers – some of whom carried on about using the tax system as an instrument of redistributive justice. It is a debate that owes much to the divergent political philosophies of two Harvard colleagues, the libertarian Robert Nozick and the egalitarian John Rawls. Theologians have had their say too. For some liberal clergymen taxation was a means of coercing the sinful into good works to help the poor. Other religious leaders believed that true charity ought to be voluntary and independent of taxing authorities.

Today, tax fairness is driving tax reform. As the momentum builds for the idea of flat tax rates on income or consumption taxes, many left-of-center tax scholars would like to retain equity in such proposals.

The nine scholars who contribute to *Tax Justice: The Ongoing Debate*, a very readable compilation of arguments in favor of vertical equity, are aware that the tide toward radical tax reform is drawing attention away from progressivity. The scholars believe the move toward the flat tax and consumption tax rubs up against a genuine American bias in favor of progressive federal income taxes.

In the opening essay, the dean of American tax experts, Richard Musgrave, argues that "it may be the better part of wisdom to stay with the income base and push for improvement, rather than undertake a massive and untested conversion to consumption." This is a fine argument. But it doesn't actually resolve the efficiency problems associated with progres-

sive income tax rates nor their effect on saving and investment. Musgrave maintains that proponents of a flat tax are overhyping tax simplification. The broadening of the tax base under a flat tax would eventually hurt the poor. Besides, he says,

"little would be gained, since liabilities under progressive rates need not be computed but are read off from readily available tax tables." This is an artful dodge

that sidesteps the efficiency argument and the deadweight losses associated with tax preparation. The amount of money Americans spend at H & R Block is money that can be better spent elsewhere. Musgrave never attempts to analyze Congress which derives its power from its ability to grant tax favors to special interests – an abuse that a flat tax would certainly curtail.

At least two other contributions stand out in this volume. Dennis J. Ventry's "Equity versus Efficiency in the U. S. Tax System in Historical Perspective" is a great survey of the tax debates only if it reminds us of the high marginal tax rates that never fell below 90 percent in the 1950s. Barbara Fried's contribution, "Why Proportionate Taxation?" is a sharp critique of classical liberal thinking on tax policy. For Fried, libertarians – having ruled out most progressive schemes – appear to paint themselves into a corner by slip-sliding into the world of "head taxes" or poll taxes where each citizen would pay the same amount regardless of income. This most regressive of all taxes is a political disaster. Just ask former Prime Minister Margaret Thatcher who besmirched her career by introducing such a tax late in her term.

Americans stand in awe of the entrepreneur and other creators of wealth – recognizing that the superiority of capitalist incentives create the conditions of broadly shared prosperity. At the same time, the majority of Americans maintain,

As tough as it is to move the concept off the stage, equity in tax policy has its limits.



continued on page 7

Charitable choices revisited

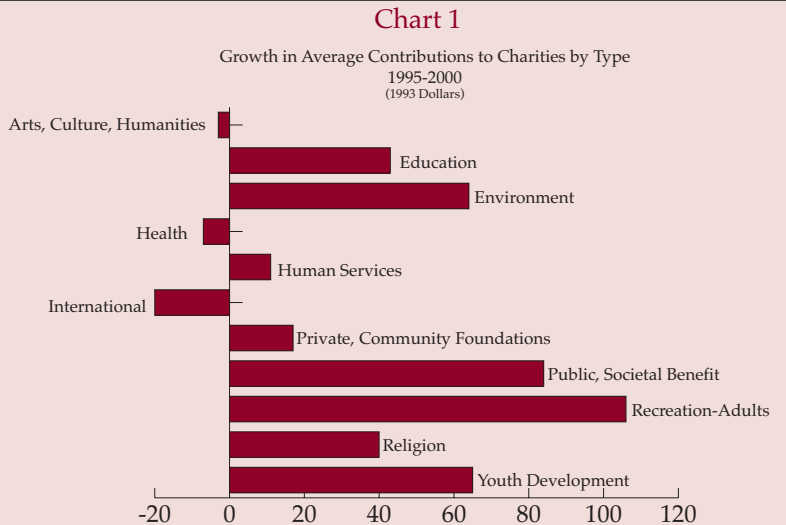
As with any economic activity, philanthropy reflects the preferences of donors who vote with their dollars. Religious organizations continue to receive an overwhelming percentage of charitable donations made by Americans. According to the latest figures, the average donation to such organizations is \$1,147 (expressed in 1993 dollars). This figure represents a 40% increase between 1995 and 2000.

The average donation, in 2000, to a religious organization was almost three times the average donation to educational institutions (\$429).

On the other hand, a trend away from religious causes appears to be under way (see *NewsLink*, Summer 2002). Now the fastest growing category is donations to groups that provide recreational activities for adults. The average donation to these groups increased by 106%, from \$152 in 1995 to \$313 in 2000. Donations to public or societal-improvement organizations, which include advocacy groups and think tanks, increased 84%. Donations to environmental efforts and education also posted strong gains of 64% and 43% respectively. There was also a measured increase in giving to youth development organizations. Such groups saw a 65% increase in the average donation made by households.

Certain types of charities lost ground during this period, even as personal income rose. Arts and cultural organizations saw a decline of 3% while health organizations saw a decline of 7%. The most stunning decline came at the expense of organizations dealing with international issues, perhaps a bellwether of American complacency. The average size of a donation dropped 20%.

Data collection in the world of philanthropy suffers from a significant time lag. All the data used in this analysis



Source: *Statistical Abstract of the United States, 1999 - 2002*

Average Contribution to Charities by Type: 1995 - 2000*				
	1995	1998	2000	% Change
Arts, Culture, Humanities	204	195	198	-3%
Education	301	337	429	43%
Environment	100	171	165	64%
Health	203	206	189	-7%
Human Services	256	220	285	11%
International	268	246	215	-20%
Private, Community Foundations	171	239	201	17%
Public, Societal Benefit	115	118	212	84%
Recreation Adults	152	127	313	106%
Religion	821	883	1147	40%
Youth Development	130	153	215	65%

*1993 Dollars
Source: *Statistical Abstract of the United States 1999-2002*, U.S. Department of Commerce

were posted before September 11, 2001. The effects of the events of that day – and two major wars — on donor preferences are yet to be determined.

BookMark

continued from page 6

as the authors repeatedly note, a moral and aesthetic passion for equity, a passion that trumps economic efficiency, particularly when it comes to intergenerational endowments and other inheritances of wealth.

Since the founding of the republic, Americans have gone to great lengths to remind aristocrats and the nouveau riche that with wealth comes a greater responsibility to the public fisc. This contradictory attitude toward upward mobility shifts to reflect times of prosperity and times of financial crisis.

In the middle of this contradiction, Americans tend to realize that the case for progressive taxation is indeed a very uneasy one. That uneasiness has been more pronounced in part due to the schools of thought — from the rise of pub-

lic choice theory to supply-side economics that emerged to challenge the faltering consensus that taxes do not matter. The passion for asking the rich to demonstrate good manners by acceding to high marginal rates is not immutable. As history shows, both liberals and conservative administrations have used fiscal policy to emphasize economic growth. As the tax economist W. Eliot Brownlee observed, only in the 1960s did tax reformers realize that it was time to abandon progressivity in favor of promoting economic growth. As President Kennedy proved, when he called for tax cuts, equity considerations were not always paramount. Since that time, postwar policymakers have found a middle ground as they traded objectives by broadening the base (by closing loopholes) and lowering marginal tax rates. The Tax Reform Act of 1986 is one example.

Nonetheless, any tax reform initiative, including calls for a flat tax or a modified consumption tax must incorporate some element of fairness to succeed. (Any serious flat tax must

incorporate exemptions for low-wage workers, for example).

It is easy to dismiss the imperfections of vertical equity and progressive taxation as mere utilitarian sentiments which, if unchecked, mark the beginning of the end of individual liberty in the United States. But this is the nature of democracy and, as Churchill pointed out, the alternatives are intrinsically lacking.

Rich in history and theory, *Tax Justice: The Ongoing Debate* is a well-reasoned challenge to supply-side economists who have argued successfully over the last 20 years that “soak-the-rich” taxation has raised the cost of capital, inhibited investment and delayed improvements in productivity. As tough as it is to move the concept off the stage, equity considerations in tax policy have their limits.

In Point of Fact

S

owing the seeds of lost opportunities

Farmers in a dozen European countries could boost their net income by \$1 billion a year if their governments would allow planting of genetically modified corn, sugar beets and potatoes, according to a study released Tuesday. The report – prepared by the National Center for Food and Agricultural Policy – puts dollars and cents to the political and cultural debate raging over the use of genetically modified, or GM, crops. It was made public during the Biotechnology Industry Organization's 10th annual meeting. "This is the first study that explains how biotechnology could impact Europe," said Leonard Gianessi, program director for the National Center for Food and Agricultural Policy, a nonprofit research organization based in Washington. While the organization does not advocate a particular position or course of action, Gianessi said, "This technology might give the Europeans some options they'll want to explore." The United States has accepted corn, soybean, canola and cotton crops that are engineered to resist certain pests, diseases and applications of herbicides. Farmers have planted them on millions of acres – and report that they reduce the need to apply insect- and weed-killers, as well as boost yield.

"New Study Spells Out Benefits of Genetically Modified Crops," Rachel Melcer, *St. Louis Post-Dispatch*, June 24, 2003.

Taxing choices

Fines, fees, surcharges, taxes: Whatever you call it, the bottom line is that cash-strapped states are seeking billions of new dollars from their citizens, enough to potentially double the load of new taxes this year and erase much of the windfall American taxpayers enjoyed in the 1990s. An Associated Press analysis of budget work in all 50 states found many are trying to target their tax hikes or increase fees – allowing politicians to make claims that they did not raise income taxes. But those states that have raised across-the-board taxes such as income, sales or prop-

erty taxes will get more money. The targets? Smokers, drinkers, gamblers. Drivers and traffic offenders. Businesses, small and large. But, in the end, few will escape the pain as states confront billion-dollar gaps between the amount of money they gather and the amount they spend. "I don't think they have much sympathy for me," said Pete Giannopoulos, a brew pub owner in Phoenixville, Pa., who could see beer taxes triple. "We'll probably take most of the hit in our shorts." "Few People Likely to Escape Higher Taxes," Robert Tanner, *Associated Press*, June 13, 2003.

Getting caught in the AMT net? Join the crowd

More than 2,000 individuals with incomes of \$200,000 or more paid zero in federal income taxes in the year 2000, according to a report released by the Internal Revenue Service on Thursday. The report shows the percentage of tax filers with \$200,000 or more in income that escaped all income tax liability was at its highest since 1994, but still remained a very small group. The report was in the IRS "Statistics of Income" bulletin. A separate IRS report showed the average income tax rate paid by the 400 tax filers with the highest incomes in 2000 was 22.29 percent, up from 22.23 percent in 1999 but below a recent peak of 29.35 percent in 1993. The numbers may raise questions about the effectiveness of the so-called Alternative Minimum Tax, a method of calculating an individual's tax liability aimed at ensuring wealthy people pay at least some income taxes.

"IRS: Over 2000 Big Earners Paid No Tax in 2000," Jonathon Nicholson, *Reuters*, June 26, 2003.

Who would want to move to Wyoming anyway?

For the sixth straight year, Wyoming is the most "wealth-friendly" state, according to Bloomberg Wealth Manager magazine. Wyoming is "America's own tax haven," the publication said. "States are struggling to control the most serious financial hemorrhaging since the Great Depression. And that can only mean bad news for wealthy clients, particularly those who live in wealth-unfriendly states," wrote Tom Saler for the magazine. "Wealth-friendly locales are becoming harder to find." The rankings are based on how much fami-

lies can keep of what they earn and own. Other states earning high marks are Alabama, Nevada, Tennessee and Louisiana. The most "wealth-hostile" are Rhode Island, Vermont, Wisconsin, New York, and Maine.

"Wyoming again ranks as No. 1 tax haven," *Associated Press*, June 23, 2003.

Socialized medicine means Big Brother is watching your weight

Smokers and overweight people will be asked to sign contracts with their doctors to agree to a program to quit smoking and lose weight under radical plans being drawn up by the government. In an attempt to remind people of their own responsibilities the health secretary, Alan Millburn, is examining plans for patients and doctors to agree to a formal program of treatment. Sources insisted last night that the plan, outlined in a Labour party policy document as part of preparations for the next general election manifesto, did not mean patients would be denied treatment if they refused to sign. But the Labour document makes clear that patients, particularly overweight people and smokers, will be reminded that they must have a role in caring for themselves. "Smokers 'to sign pledge' with doctors, Nicholas Watt, *The Guardian* (UK), June 3, 2003.

Well isn't that nice of them!

The Senate Rules Committee moved closer yesterday to issuing a warning to lawmakers: Do not take furniture, paintings and other historic items from the Capitol. "We are not supposed to steal from the Capitol," Sen. Don Nickles (R-Okla.) said wryly after the panel sent the proposal to the Senate for a vote. "Senate may bar thefts from Capitol," *Reuters*, June 25, 2003.



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