The slippery slope of statewide smoking bans
Snuffing out smoking, snuffing out choices

As we go to press, the Massachusetts Senate is poised to enact a statewide smoking ban. Even if Governor Romney vetoes the measure, the legislature will almost certainly override him. So the chances are, as you read this, Massachusetts will have joined New York, Connecticut, California, Maine and Delaware in banning smoking from almost all workplaces.

While the Massachusetts policy debate, as it affects smoking in workplaces, is therefore history, it is worth considering what the outcome of this debate means to the way the policy was made.

Anti-smoking advocates will hail the ban as a victory for public health. This is out of concern for workers who, in the few workplaces where smoking is still permitted, would otherwise suffer the discomfort and risks of second-hand smoke.

The workplaces at issue are restaurants and bars. Other workplaces have, for the most part, already banned smoking. The reason why restaurants and bars continue to accommodate smokers is that, for many people, smoking enhances the pleasure of eating and drinking.

While some workers may prefer to smoke at their desks or work stations, rather than being forced outside, restaurant and bar patrons are at an advantage over workers: It is easier to switch from a restaurant or bar that doesn’t permit smoking to one that does, than it is to switch from an employer who doesn’t permit smoking to one who does. Thus, in the absence of government regulations banning smoking from all workplaces, restaurants and bars continue to accommodate smokers even while other places of employment do not.

So viewed, the question of workplace smoking is not only a question of public health. It is also a question of individual choice. If lawmakers think that it is appropriate, in the name of public health, to override individual choice when it comes to patronizing bars and restaurants, then what’s to stop them from going on to “protect” workers in other occupations? Surely, sky diving instructors and their students are at risk. And what about surfers, scuba divers, high steel workers, policemen and fire fighters?

What the federal government gives back, the states take away
Fees put a crimp on tax cuts
by Christopher Boyd

It’s not the greatest time to be a governor. Gone are the days of bulging state surpluses and low unemployment rates. Today, states are muddling through the most severe fiscal crisis in more than a decade. And there’s not much help coming around.

And while it saw the largest expansion in a quarter since 1984, the nation is in the throes of a “jobless recovery.” Unemployment hovers at 6.1 percent. Consumer confidence is lackluster. The federal deficit is at near record levels. The trade deficit registers 5% of Gross Domestic Product (GDP). The focus on Capitol Hill is not on more spending for the states but on the rebuilding of Iraq, with Congress earmarking $87 billion to rebuild the country.

Unlike the President and Congress, the overwhelming majority of state and local governments must balance their budgets. Thus, a governor is left to make tough choices.

As a result, many state and local governments have raised taxes, cut services, postponed capital spending, raised fees or undertaken a combination of these and other measures.

Playing corporate down-sizer or hiking broad-based taxes is not the way to endear oneself to angry voters. Raising taxes is clearly unpopular; just ask recently recalled California Governor Gray Davis. Recently, voters in both Alabama and Seattle turned back referenda to raise taxes. In politically progressive Massachusetts, voters last year almost voted to abolish the state income tax, the largest source of the state’s revenue. That leaves elected officials with few
As much as its political experts would have you believe otherwise, Massachusetts doesn’t matter when it comes to presidential elections. Her winner-take-all Electoral College allocation causes presidential candidates to ignore Massachusetts. But moving to proportional representation would increase the Commonwealth’s political clout.

As any student of civics knows, the presidential candidate who wins the greatest share of Massachusetts’s popular vote gets all 12 of her Electoral College votes. Unfortunately, since Massachusetts is reliably more Democratic than the rest of the nation (in 2000, Gore did 12% better in Massachusetts than he did overall), the choice of Massachusetts voters can’t affect the outcome of presidential elections.

Judging by history, a close presidential election would find Massachusetts voting overwhelmingly for the Democratic candidate, so both Republicans and Democrats believe that courting Massachusetts voters is a waste of time. If the Democratic candidate leads the national polls, he would easily win Massachusetts in a landslide and so again neither Republicans nor Democrats would worry about Massachusetts’s electoral votes. Even if Republicans are sufficiently ahead nationally to have a chance at winning Massachusetts, then the Republicans would necessarily be doing so well in so many other states they wouldn’t need Massachusetts’ votes. Consequently, under all reasonable circumstances, wooing Massachusetts voters wouldn’t increase a presidential candidate’s chance of winning. There’s a way for Massachusetts to make her electoral votes matter.

Massachusetts should abandon her winner-take-all Electoral College allocation. Although 47 other states have identical electoral allocation mechanisms, the winner-take-all arrangement isn’t mandated by the U.S. Constitution. Indeed, Maine and Nebraska use a different proportionally-based system in which it’s possible (although it has never actually happened) that multiple candidates could receive some of the state’s electoral votes.

Massachusetts would boost her political influence by adopting proportional representation under which the number of electoral votes a candidate received was proportional to the share of the popular votes he wins. So, for example, if you win 70% of the popular vote you would get 70% (with some rounding) of the Electoral College votes. Under such a system both major parties would fight for Massachusetts’s votes even if the Democrats were assured of getting at least 51% of Massachusetts’s popular vote.

Proportional representation would help Massachusetts attract more federal dollars. Imagine that polls give the Democratic presidential candidate a 12% lead in Massachusetts. Further imagine that a Republican president is considering awarding Massachusetts a $1 billion grant, and that this grant will win the Republicans 20,000 extra Massachusetts votes. Under our existing winner-take-all allocation, these extra 20,000 votes would provide no help to the Republican president, so politically he would be inclined to give the $1 billion to a more politically balanced state like Florida. In contrast, if Massachusetts had proportional representation it would be more competitive – winning an extra 20,000 Massachusetts votes might give the president another Electoral College delegate.

Obviously, moving to proportional representation would help Republican and third party presidential candidates who now have almost no chance at capturing any of Massachusetts’s electoral votes. However, while Democratic presidential candidates would suffer, state Democratic officials would increase their influence because the national Democratic Party would now be in greater need of their support.

Unlike Massachusetts, a state like Florida wouldn’t increase her political influence by adopting proportional representation. If the national polls give either major candidate about an equal chance of capturing Florida, then under a winner-take-all system a few thousand extra popular votes could cause a candidate to capture all of Florida’s electoral votes. Consequently, under winner-take-all both major parties should spend heavily to bribe Floridians to vote their way. In contrast, if Florida used proportional allocation, then winning a few thousand more popular votes would at best win a candidate one more Electoral College vote. Therefore, even under proportional representation, a Massachusetts voter won’t be nearly as important as a Florida voter, but at least presidential candidates would put some effort into earning our support.

James D. Miller is an assistant professor of economics at Smith College and the author of Game Theory At Work (McGraw Hill, 2003). He thanks Craig M. Nakashian for contributing ideas used in this article.

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 addresses Colorado summit on economic development

What can Colorado’s economic development professionals do in the coming years to make sure that the state keeps its competitive edge? The state’s Economic Developer’s Council of Colorado’s (EDCC) first order of business was to get ahold of Dr. Jonathan Haughton, BHI’s senior economist and co-author of two nationally recognized studies on competitiveness.

Haughton was the keynote speaker on October 16 at the Council’s conference, “Making Your Community More Competitive,” in Grand Junction, CO.

The conference, attended not only by economic development experts but also by representatives of major industries, drew 120 individuals to hear about BHI’s work in the area of competitiveness. Haughton delivered a special presentation “Running to Stay Fit: The Challenge of Continuing Colorado’s Competitiveness.”

Citing two of BHI’s works on the subject, Haughton noted that Colorado ranked 4th overall in the Institute’s 2002 survey, moving up two places. He also noted that the Denver metropolitan area ranked 4th in last year’s study, which focused on cities and their nearby suburbs. These top rankings were based on the ability of the state to provide a highly educated workforce and an emphasis on high technology as well as the ability to maintain adequate infrastructure and a hospitable place for start-up companies.

Some of the economic developers expressed concern about increasing competition from Wyoming, which has been recently attracting jobs away from northern Colorado. In response, Haughton cited one possible advantage identified in the BHI study: Wyoming has a higher rate of high school graduation, a higher rate of high school graduation, and a sound business system.

Earlier this year a BHI team examined the competitiveness of the Buffalo metropolitan area in some detail, and presented a full report to business and opinion leaders there.

Government Efficiency Commission of New Hampshire taps BHI

In an effort to streamline state government, the Government Efficiency Commission (GEC) of New Hampshire has retained the Beacon Hill Institute to improve the delivery of state services in the Granite State.

The GEC was created by Governor Craig Benson and charged with identifying opportunities for restructuring state government that will promote efficiency, encourage cost savings, enhance accountability and control, improve coordination, reduce redundancy in state government, and provide better government for the taxpayer’s dollar.

Last August, the GEC asked BHI to examine ways to improve the efficiency in four areas of government: facilities management, personnel, contract procurement, and business services.

Using a number of research methods, BHI is exploring the potential for cost savings and improved efficiency in these areas. The Institute is also surveying state managers. “As is the case with many state governments, the incentives in New Hampshire state government are not aligned to produce the best, most timely results for the least cost,” says Project Manager and BHI Director of Operations, Rebecca Moryl. “We are finding ways in which the state can restructure and reorganize from the top down, creating incentives for the optimal result.”

BHI’s analysis will be incorporated into the GEC’s final report to be released in December.

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options. Some of these options are adeptly creative. And nothing less than a good portion of your tax cut is at stake.

Turning to fees

The instruments of choice are “user fees” which are distinguished from broad-based taxes and are discriminatory in nature. User fees are an attempt to impose some market-like prices for goods and services provided by state and local governments. Despite their name, gasoline taxes, for example, are effective user fees. The use of roads by motorists roughly corresponds to the amount of gasoline they consume. Most revenue from gasoline taxes is earmarked for road maintenance and construction. Therefore, people who buy more gasoline contribute more to the provision of roads, traffic lights and stop signs. Likewise, individuals who pay hunting and fishing licensing fees, pay for conservation of lands used for hunting and fishing. Ideally, these fees cover the costs of maintaining the reservations and lakes.

But governors and state legislators are moving beyond the use of fees as a “pricing mechanism” and toward a more confiscatory approach.

A 2003 study by the National Conference of State Legislatures (NCSL) found that after sales taxes, fees generated the most revenue for states. To date, with only 42 states reporting, 30 have raised more than 200 different fees for a total fee increase of nearly $2.6 billion. Compare that to 2002 when 16 out of 50 states raised fees for a total of $926 million. That makes the amount of the fee increases in 2003 nearly three times greater than that of 2002, which itself was more than twice the $405 million fee increase in 2001.

In pursuit of balanced budgets, state and local governments have been especially creative when it comes to the many categories of services supported by fees. Now it seems their past creativity has finally paid off. Common targets for fee increases include motor vehicle and drivers’ licenses, court fees, filing fees, health care fees and hunting, fishing and park fees. Less common ones include North Carolina’s fee increase levied upon local health departments for processing pap smears. Massachusetts has also raised fees on everything from ice time at skating rinks to bar exam fees paid by new law school graduates. In total Massachusetts imposed, increased or established 28 fees. Thanks to this creative financing scheme, you’ll pay a $25 surcharge if you’re caught speeding and a $100 instead of $25 fee to register your firearm. Even getting married will cost more in the Commonwealth. The fee to set you on the road to marital bliss has increased more than 10-fold from $4 to $50.3

According to the NCSL, Massachusetts has earned itself yet another dubious distinction by imposing more fee hikes than any other state in the nation this year. Of the 30 states that raised fees this year, only nine are bringing in $100 million or more in fee increases. Massachusetts leads the pack reporting $501.5 million in fee increases; New York follows with $367 million in fee increases.4

A basic question

The rush to raise fees prods a fundamental question: Are raising fees and raising taxes the same thing? As levied in Massachusetts, is a fee really a tax?

Merriam-Webster’s dictionary defines fees as a sum paid or charged for a service. When someone chooses to use a government service, that person should be expected to pay for it. Therefore, they should pay a fee. This “user” fee should cover the cost of the service that the person is receiving. If a person chooses to spend an hour skating at a public skating rink, that skater should pay the costs for that hour. If a hunter chooses to hunt in a state forest, that hunter should pay to defray the cost of state oversight of the public land. If a law student is paying a fee to take the bar exam then that fee ought to cover the administrative costs of keeping his record on file. If the money handed over also pays for something that person does not want or isn’t getting then they are paying both a fee and a tax. It is highly unlikely that the unit cost of providing a service has grown proportionately to the level of recent fee increases. The unit cost of filing firearm IDs has not increased by a factor of four.

Taxes differ from fees in the sense that paying them isn’t a matter of choice and what you pay for is not directly tied to what you get. In the final analysis, government is no longer providing just a service but is “taxing a choice.” The excess price paid by the consumer of that service flows not to the agency but to the state’s coffers for general expenditures.

Governor Mitt Romney makes a distinction between taxes and fees by describing fees as charges that are levied in return for specific services. Since the amount of the fee often covers the cost of a service, the governor has said he views fees as distinct from and preferable to broadly applied taxes on income or the sales of goods.5

This sounds reasonable. But any plan to raise fees or taxes should be met with skepticism until the Commonwealth has exhausted all the opportunities for cutting spending.

Where’s the net gain?

Which brings us to the next question. As the federal government gives (in the form of tax cuts and rebates) and local government

The Commonwealth of fees

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<th>Fee</th>
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<tr>
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<td>License to carry firearms</td>
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<td>Deed recording fee</td>
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<tr>
<td>Certificate of blindness fee</td>
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Smoking Ban
continued from page 1

As for bar and restaurant workers, eliminating smoke from the environment won’t put them out of harm’s way. Musicians are notoriously prone to hearing loss. Shall we require ear plugs? Waitresses are at risk of sexual battery, at the hands of intoxicated patrons. Shall we ban provocative uniforms? And there are other supposed risks to workers in other occupations. We already hear of efforts to ban perfumes from workplaces.

The Beacon Hill Institute conducted an informal poll of Boston restaurant and bar managers and of wait staff over the past summer. Questions centered on what the respondents thought of the Boston smoking ban, which had been implemented earlier in the year. The responses offered some interesting insights to what people in the industry think about the issue.

We interviewed 28 waiters, waitresses and bartenders. It is not surprising that these workers seemed mostly happy to be spared the effects of secondhand smoke. Nineteen respondents – or 68% – reported that the ban had had a “positive” effect on working conditions.

What may be surprising, however, is that far fewer of them supported the ban. We asked if tips were down. And they were: an average of $20 a day during the week and $29 a day on weekends. The result is that only 15 – or 54% – favored the smoking ban.

Particularly interesting is the fact that five respondents who did not favor the ban also reported that the ban had improved working conditions. These five workers – 18% of our admittedly small sample – illustrate the importance of considering individual choice before imposing sweeping restrictions on individual behavior. As one of these workers put it, “In my opinion, it should be the bar’s choice and then you can choose a smoking bar or a nonsmoking bar.”

We also interviewed 12 restaurant and bar managers. Of these, seven reported that the ban had had an effect on business, with an average loss of $250 per day. Unsurprisingly, nine respondents – 75% – indicated that they did not favor the Boston ban. Six of the 12 managers favored a statewide ban, and four did not (the remaining two offering no opinion).

Most significantly, when we consider only those seven managers who reported an effect on business, a majority – four – did not support a statewide ban. Of these four, three reported a loss in business, owing to the ban, and one reported a gain.

It is hard to understand why managers of Boston establishments that are losing business because of the Boston ban would not support a statewide ban. The only possible explanation is that these managers oppose putting restrictions on others even when doing so would alleviate harm that they are suffering because of restrictions placed on them. In other words, these managers put principle ahead of profits. As for the one manager reporting that he gains from the Boston ban, perhaps he felt that a statewide ban would cause him to lose patrons he was attracting from communities that currently do not have a ban.

At any rate, the Massachusetts legislature placed little weight on such considerations. With all of its resources, the state might have conducted a formal survey to determine, as we tried to do, what restaurant workers and managers really think about a smoking ban. Instead, lawmakers proceeded blindly in pursuit of public-health goals that, at best, have only mixed support from the very people whose health it is their goal to protect.

BHI Summer Intern Emily Bovaird, a senior at George Washington University, conducted the survey used in this story.
The appetite for revenue provides an opportunity for public officials once again to ignore the need for real budgetary reform of Medicaid, Medicare, and Social Security.

When it is not lurching for the last dollar, the grabbing hand of government loves nothing more than the label conveniently called a “fee.”

Christopher Boyd is a student in the Master’s of Public Administration program at Suffolk University, Boston.

(Endnotes)


Beyond the yuan, Mass. exports to China

The U.S. global trade deficit was $39.2 billion in August 2003; $11.7 billion of that total trade deficit was with China alone. With trade deficits with China reaching an all-time high, the Bush Administration is pressuring China to float its currency, the yuan, against other major currencies. U.S. Treasury Secretary John Snow has been arguing that a cheap yuan, pegged for almost a decade at 8.3 yuan to $1, allows China to flood the U.S. market with inexpensive goods while making it more difficult for American exporters to sell their goods and services in China. A revaluation upward, which might occur if the yuan were allowed to float, would help U.S. exporters, say administration supporters.

In 2002, Massachusetts exported $384 million worth of manufactured, agricultural and other commodities to China. Among the big ticket items were computer and electrical equipment, appliances, and manufacturing machinery. Despite being located on the East Coast, the Bay State ranked in the top ten states when measured by the value of exports to China (on a per capita basis).

The relatively strong links between Massachusetts and China should be good news for local industry. The Chinese economy continues to expand rapidly, raising the demand for Massachusetts goods. And if the yuan is revalued, this should provide a significant boost to sales to China.

Unfortunately, Massachusetts is now missing the boat to China. In 2002, U.S. exports to China rose by 16% while Massachusetts exports to China actually fell by 10%. Massachusetts accounted for 3.3% of all U.S. exports to China in 2000, but just 1.8% of the total in 2002. This reversal might be a warning sign of a decline in the state’s competitiveness. It appears that China is rapidly becoming competitive in areas, such as high tech, that were once local strengths.

A revaluation of the yuan might or might not save the day. Some estimates suggest that a revaluation would raise the cost of Chinese goods sold in the U.S. by only 2 percent, while exposing China’s primitive financial institutions to a volatile currency market. Furthermore, a free floating yuan might trigger another Asian financial crisis like that of 1997. If Massachusetts wants to regain its strength in the China trade, it should look to moderating the high costs of health insurance, housing and taxes, all of which are home-grown explanations for declining competitiveness.

Christopher Boyd is a student in the Master’s of Public Administration program at Suffolk University, Boston.

(Endnotes)

1 David Armstrong, “China is likely to resist calls to revalue yuan; Hong Kong leader says change would hurt trade,” San Francisco Chronicle, Sept. 26, 2003. B-3.
Housing with other people's money

The Coming Crash in the Housing Market: 10 Things You Can Do Now to Protect Your Most Valuable Investment

In the current economic climate, it is rather difficult to argue that real estate is not a very good, low-risk investment. The rush to “bricks and mortar” and the run-up in housing prices in the wake of the Internet stock crash is a natural, risk-averse response to the uncertainty of the new economy.

Unlike the stock market, a home is the old comfortable shoe. And with good reason—in no year during the last 34 did housing prices decline year to year.

This phenomenon of increasing housing values—even through the most recent recession—provides the overall economy with a much-needed psychological anchor. Since January 2000, housing prices have soared. Consumers may be worried about their jobs and the future but one wouldn’t be able to discern this apparent contradiction by walking up the busy aisles of the local Home Depot on a Sunday morning.

Most observers are sanguine about the rosy scenario on the housing front, identifying the sector as one of the economy’s great strengths, thanks to the major boom in housing refinancing.

John Talbott, an enterprise consultant and visiting scholar at UCLA buys very little of this conventional wisdom. A former investment banker, Talbott believes a housing market crash is inevitable and will be far worse than the savings and loan crisis of the 1980s. If there’s a housing crash, he writes, “the ramifications could be so severe that it not unrealistic to think that such an event could trigger a worldwide depression as the credibility of all banks and investment companies would be threatened.”

Were it not for his extensive detailed research and the force of his argument, Talbott might be dismissed as yet another doomsayer who might find his new book quickly in remainder bins. Given the fragile nature of the housing market and emerging concerns about the stability of Fannie Mae and Freddie Mac, it is a surprise no one has written such a book earlier.

Housing prices pose a problem because of a number of factors. Since 1968, the price of an average home has increased by 70%. Some of this increase can be explained by the demand for larger homes and even the demand for tax avoidance in the form of the vaunted home mortgage deduction. But as Talbott shows, the real value of the home mortgage deduction has declined remarkably in part because of the timidity of inflation. By his count, only 10% of the price of the home is due to this tax advantage.

That leaves low interest rates as the major reason for the dramatic increases in housing. Low interest rates clearly distort the market. Feeling they can no longer sit on the sidelines, prospective homeowners are lured into higher prices because “banks and other lending institutions are giving people more and more money to transact house purchases.” But, is getting people to realize their American dream not a good thing?

Not at the aggressive rate we’ve seen in the last few years says Talbott. That’s because the average owner-occupied residential household has approximately $80,000 in debt compared to renters who carry only $22,000 in debt.

Rather than fueling growth in the economy, recent refinancings have allowed homeowners to run up their debt to 90 percent of their home's market value. If, as a society, we were truly wealthy, we would not find ourselves spending so much on a basic necessity such as shelter says Talbott. Nor would foreclosures be on the rise. “The really shocking news is that foreclosures would be increasing at all, given that home prices are increasing in value at the fastest pace in history.” Since 2000, foreclosure rates have increased 25 percent. It can get worse should the economy stagnate and home prices ever decline. With debt ratios exceeding 10 to 1, housing prices need not decline that much for one’s investment to be “underwater.” A 20% decline in the average home price would bankrupt many Americans. Such devalued homes would be difficult to turn over in a down market, preventing people from moving and accepting better jobs elsewhere and creating a drag on the economy.

How can this happen in the most robust housing market? Talbott blames just about everyone in the housing market including poorly informed homebuyers, realtors, bankers and regulators. And with good reason.

To Talbot the housing market is not a “true” market. Market exchange requires that (1) buyers and sellers enter into contracts voluntarily (2) that exchanges be at arm’s length, and (3) that the benefits and costs of any transactions must accrue to the buyer and seller and not a third party. While the housing market satisfies the first it fails on the last two. Mortgage bankers have a vested interest in higher priced appraisals; appraisers fail to provide independent judgments about the historical price, rather than the market price, which is endemically exaggerated.

Talbott’s criticism of the interlocking relationship may be overly cynical. But what is not debatable in the current environment is the extent of the U.S. government’s implied guarantees for the major mortgage lenders Fannie Mae and Freddie Mac, the FMs, two quasi-governmental corporations that were “privatized.” However, unlike true private enterprise, the FMs have retained important advantages such as exemptions from filing Securities and Exchange reports and from paying state and local taxes. Both can also borrow at roughly the same preferred rate as the federal government, creating a subsidy of $6.5 billion according to the Congressional Budget Office. This is small change compared to the $3 trillion in mortgages they currently hold and the implied government guarantee. This would not be news if the FMs were staid old public utilities. However, the FMs are doing riskier things everyday that jeopardize the economy, including the aggressive pursuit of sub-prime lending business. They also provide dubious stock options to their executives who aggressively seek to prop up the FMs stock prices. The moral hazard is pretty clear. As Talbott notes, “No matter how badly they run their business, their financing costs do not change, thanks to the federal government’s implied guarantee.”

In the final analysis, the FMs are playing dangerously with other people’s money. This loose money allows housing prices to increase wildly, placing the entire economy at risk. Recently reformers have moved to bring both FMs under the authority of the U.S. Treasury. Whether that’s enough remains to be seen.
In Point of Fact

**I’ll have a tax-free espresso, please!**

Voters in Seattle, caffeine capital of America, have rejected a controversial proposed 10 cent espresso tax. The tax would have strapped the life-blood of a city where fancy espresso drinks are sold on nearly every street corner and where Starbucks and a generation of coffee chains were born. Initiative sponsor John Burbank said people who spend $3 to $5 on coconut mochas or iced vanilla lattes could afford an extra dime to raise millions of dollars each year for the city’s preschool and day-care programs. But coffee shop owners, including Seattle-based Starbucks, fought the tax. “It’s not a luxury item as far as the culture here,” Jeff Babcock, owner of Zoka Coffee and Roasters said. “It’s a cold, wet, damp environment. Coffee’s big, and everyone loves their lattes.” Most of his customers are the sort of Seattle liberals who dutifully vote for every school bond levy, Mr Babcock said, but they were not going for the espresso tax: “They just think it’s a crazy tax.” The ballot measure, Initiative 77, would not have taxed regular drip coffee, only espresso drinks.


**It’s the wife’s fault?**

As a bankruptcy expert, Elizabeth Warren has seen the devastating effects on families when their finances collapse. She has also watched the number of bankruptcies escalate, rising 400 percent in the past 25 years. By the end of the decade, she says, an estimated 6 million families with children - 1 in every 7 such families - may declare bankruptcy. This year, there are more children going through parents’ bankruptcies than children going through their divorces. But Ms. Warren, a law professor at Harvard, rejects the conventional theory that overconsumption - squandering money on big-screen TVs, McMansions, restaurant meals, oversized cars, and luxury vacations - is to blame for insolvency and all those maxed-out credit cards. Instead, she points to the high cost of housing and education - fixed expenses that can quickly create a sea of red ink when families face layoffs, illness, or divorce. Skyrocketing healthcare costs add to the problem. Ironically, Warren sees Mom’s paycheck – a family’s second income, the very asset meant to provide more financial stability as a potential culprit rather than an economic cure. When middle-class mothers began entering the workforce en masse, she explains, their incomes gave parents more money to spend on housing. This created “frenzied bidding wars” for homes in desirable school districts. A deregulated mortgage industry compounded the peril by allowing homeowners to assume larger mortgages.


**The sick man of Europe and his pills**

The calculation is simple and politically dangerous for researching pharmaceutical companies: Drug outlays of German statutory health insurers rose from $16.7 billion in 1991 to $27.4 billion last year. And pharmaceutical companies are used to profit margins in the high double digits. It appears only logical then that drug manufacturers are having to ward off ever new attempts by government to reduce drug costs. Yet a glance at the list of the world’s leading pharmaceutical companies shows that past savings attempts of German health policy makers have had an adverse economic side-effect: They are partly to blame for the German pharmaceutical industry’s relegation to the second league. And while manufacturers of generic products have thrived, the lack of free price formation also prevents this segment from exhausting the potential for cost savings in the health sector. Although the weak development in Germany was partly caused by factors favoring investment in the United States, statutory health insurers as the principal buyers of medicine have an immediate influence on the attractiveness of a business location. “Germany slips into Second League,” Carson Knop, Frankfurter Allgemeine Zeitung, July 25, 2003.

**The real education of David Stockman**

The Reagan revolution, former Office of Management and Budget director David Stockman argued in his book, the *Triumph of Politics* failed badly in its mission to shrink the government. It “was not the advent of a new day, but a lapse into fiscal indiscipline on a scale never before experienced in peacetime.” Today, he sees it much differently. “He was absolutely right on defense, and I was totally wrong,” Mr. Stockman said of Mr. Reagan. “The deficit was ballooning and anything I could cut I was for cutting. He was a hundred percent right because that is what brought the Soviet Union down, that is what ended and purged the world of the scourge of Communism, that is what really allowed for the flowering of liberal democracies in the ‘90s,” he said. In Mr. Stockman’s view, it also allowed for lower military spending in future years. “Selling One (Or More) for the Gipper”, Danny Hakim, The New York Times, September 7, 2003.

**Mo’ money, More mediocrity**

The U.S. spends more money on education than other major countries, but its performance doesn’t measure up in areas ranging from high-school graduation rates to test scores in math, reading and science, a new report shows. “There are countries which don’t get the bang for the bucks, and the U.S. is one of them,” said Barry McGaw, education director for the Paris-based Organization for Economic Cooperation and Development. The U.S. spent $10,240 per student from elementary school through college in 2000, according to the report. The average was $6,361 among more than 25 nations. Yet the U.S. finished in the middle of the pack in its 15-year-olds’ performance on math, reading and science in 2000, and its high-school graduation rate was below the international average in 2001. But from school boards to Congress, growing numbers of leaders say the federal government isn’t committing enough money to the task. Federal education spending has grown by $11 billion since President Bush took office (which) includes spending beyond the first 12 grades. “Schools not getting bang for the buck,” Ben Feller, Associated Press, September 18, 2003.

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