

# NEWSLINK



Vol. 8, No. 4

IDEAS AND UPDATES ON PUBLIC POLICY

Summer 2004

## *E pluribus obesus! How Uncle Sam weighs us down!*

**W**hen it comes to food, America is of two minds. We love our baby-back ribs, Big Macs, Big Gulp Cokes and Emeril. We also jump on the latest diet craze, counting carbs, asking the waitress to hold the bread, and lending an ear to Dr. Phil. South Beach, The Zone, Atkins, CortiSlim have all taken their place as famous

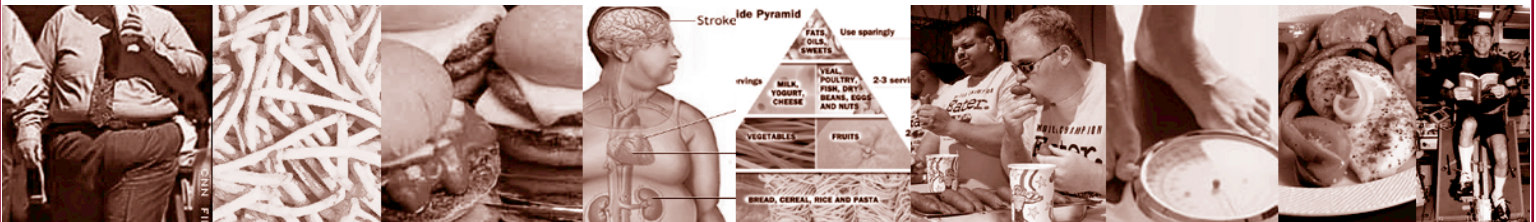
bad thing after all. It looks as though even Uncle Sam is counting carbs.

Despite all this carb-consciousness and despite the high impact aerobic classes at the YMCA, Americans are getting fatter and fatter. Nearly 31% of U.S. adults are now considered obese and a stunning 65% are overweight, based on data from the National Health and Nutrition Examination Surveys.

a busy two-income household, a calorie-laden feast of this kind can prove to be all too-tempting a pleasure.

After this delightful meal ask yourself, "Am I going to be burning 3,000 calories at the gym any time soon?"

To put this calorie amount in context, walking moderately for 45-60



brand names, along with McDonald's and KFC.

The emergence of diet fads is, in a way, a reaction to our love of food. These days it's hard not to hear that America's super-sized appetite is bad news for our health. Everyone is calling America Fat Nation, a nation that, as a result of its love affair with food, is risking diabetes, heart disease and even cancer.

At the same time, as we await the "Diet Pill of All Time," we manage to spend millions on fitness products, gym memberships and all of the gadgets that go into sculpting our American bodies, either to meet the strictures of the Body Mass Index or the fleeting ideal of Paris Hilton. Forbes recently reported that sales of treadmills, exercise bicycles, weight benches and other exercise equipment amounted to \$5.8 billion in 2000, versus \$1.9 billion in 1990. Americans have latched onto the Atkins Diet craze (a \$40 billion a year industry) that's revolutionized caloric intake.

French fries have been banished, their sin being that they're complex carbohydrates. Pasta companies are going bankrupt and liquor stores are stocking the shelves with low-carb beer. Even the Food and Drug Administration is turning the fabled food pyramid upside down, suggesting that lean meat might not be such a

Just 20 years ago, only 15% of adults were obese. In March 2004, the Center for Disease Control predicted that if current trends continue, obesity will overtake smoking as the leading cause of preventable deaths in the United States by 2005. Last year alone, Americans spent an estimated \$75 billion treating obesity-related illnesses (nearly half covered by taxpayers).

Americans can take some comfort in knowing that obesity is not bounded by U.S. borders. The abundance of food along with the increase in leisure and more sedentary lifestyles is clearly creating an obesity epidemic among highly industrialized nations. The UK, Germany, and Australia all record 15% or more of their adult population in the obese category. Sweden, which strictly regulates school lunches and limits the consumption of soft drinks, also faces an obesity problem.

So what's behind this disturbing trend? To put it simply, Americans, for one, are consuming too much and exercising too little. Why? Because we can! A prime-rib dinner with a baked potato and a Caesar salad, a glass or two of wine, a few rolls with butter, and a selection from the dessert cart totals over 3,000 calories, just for this one meal. For

minutes *per day* will expend 2,000-2,500 calories *per week*. If you balk at this, you're most likely to be one of the 58% of adults, according to the CDC, who do not engage in any vigorous physical activity lasting more than 10 minutes. Add to this a daily routine that requires not walking but jumping into an SUV to get to the mall, and the calories quickly turn into pounds.

Researchers at the National Center for Smart Growth at the University of Maryland found that people in sprawling counties weighed more than those in more compact ones. And a survey of Atlanta residents showed that, for every hour people spend in their cars, they are 6% more likely to be obese. For every kilometer – just over a half-mile – they walk in a day, they are 5% less likely to be obese. And, if they live in a mixed-use environment (one in which there are shops and services near their homes), they are 7% less likely to be obese. The links between physical activity and health outcomes are well established.

*continued on page 4*

## Give me shelter: the economics of housing



Bookmark

*A Primer on U.S. Housing Markets and Housing Policy*

Richard K. Green and Stephen Malpezzi, Urban Institute Press, 2003, 226 pages.

**H**

ousing is the largest single form of fixed capital investment in the United States. This should come as no surprise in a country where owning one's home is part and parcel of the American Dream. More than 68 percent of U.S. households own their own homes, making America the envy of the industrialized world. In 1940, one unit in five contained more people than rooms; four decades later fewer than five in 100 were so crowded.

From another point of view, however, the American Dream is in trouble. Today's homeownership rate, while impressive, is not growing nearly as fast as it did over the period 1950 and 1980.

It is no easy matter to understand the dynamics of the U.S. housing market. The accessibility of home ownership depends on a bewildering array of factors including the operation of quasi-government entities such as

Fannie Mae and Freddie Mac, the federal tax code, labor regulations and not least of all Federal Reserve monetary policy. Housing discrimination, failed public housing programs, rent controls and restrictive zoning laws characterize the existing hodgepodge of policies.

*A Primer on U.S. Housing Markets and Housing Policy* offers a most welcome clarification of the miasma surrounding the housing market. This slim, accessible volume, authored by Richard K. Green and Stephen Malpezzi and published by the Urban Institute Press, adeptly explains the economics of the housing debate, not only for the competing stakeholders in this debate, but also for the general reader.

Getting a handle on the housing issue is certainly a challenging task for the authors, since each stakeholder – policymaker, homeowner, renter, banker, planner – brings a different view to the table. Not least among the issues is whether government should become more active or simply get out of the way. As economists, Green and Malpezzi stand in the middle. The authors maintain a fidelity to the superiority of

the private marketplace. They note that publicly subsidized housing crowds out private housing and, as a result, has a negative economic rate of return.

With its multitudinous implications for the economy as a whole, "Shelter is one of those areas, like education, that cuts across concerns for both efficiency and equity." Economists are challenged by the goals of other social scientists. As the authors note, housing is not a "homogenous good like wheat or oil, so that simple textbook models of demand and supply are only a starting point for analysis."

The authors do not dwell on the question whether housing is or should be an entitlement enshrined in a social contract. Avoiding this noisy, misguided debate is a useful approach. No deference is given to rent control and much faith is placed on the novel idea that improving the economy is a good way to make housing more accessible.

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### BHI Summer Internship Program

## Send them to summer school!

*BHI has established a summer internship program to attract college students with an interest in free market economics. Interns perform a number of support services and research assistance to staff. Donor sponsorship enables BHI to offer this opportunity to more students. Contributions of all sizes from individuals, foundations and corporations support this program as well as other work at the Beacon Hill Institute. To make a contribution just use the postage-paid envelope in this newsletter.*



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## BHI interns in the heart of summer's big story

**I**f nothing else, the summer of 2004 proved this much: there probably couldn't be a better time to have been an intern at a busy think tank in the middle of Boston. While the city was hosting its first-ever political convention amid controversy and labor strife, BHI's diverse team of interns found itself in the middle of the learning experience of a lifetime.

In July, BHI drew a steady stream of press attention to its studies on the economic costs and benefits of the Democratic and Republican National Conventions. As the political and media world streamed into the city, interns were busy pulling together the survey information and analysis that would find its way into the pages of the *New York Times*, the *Financial Times*, the *Boston Globe* and on the airwaves of ABC World News Tonight and numerous other media outlets. They saw firsthand how stories are developed and promoted and how BHI staff handle press interviews.

Kate Allen, a senior from the University of Pennsylvania, was a key player in the coverage. Along with other interns, Allen set out to interview local businesses on expectations for the DNC. She was pleasantly surprised when her research became part of the big summer story: the loss of local business.

"What surprised me most was the level of publicity BHI was getting for its studies," noted Allen who commuted each workday from Auburn. "Each day, in the streets and on the train, I would hear people commenting about the DNC's projected effects on the economy. It's exciting to be doing research on a topic that everyone is talking about and that even has a national audience."

Lisa Trebino, a senior at Middlebury College, who spent several afternoons collecting data also says a BHI internship is a great introduction into the working world.

"At the start of the summer, I did not really know what to expect," said the econom-

ics major. "Since then, I have been asked to complete many interesting tasks. I spent a couple of

days surveying local restaurants on the effects of the Democratic National Convention. I have even gone through data on my own to try and determine some relationships." Trebino conducted an analysis of national income and budget deficits for *NewsLink*. (See page 6.)

Since its inception, the BHI internship program has confidently assigned serious work to interns who are encouraged to offer their own perspective to the project.

"Working as an intern in BHI is not just about faxing, printing, and filing," remarks Anish Pradhan, a senior studying economics at St. Anselm College. "From the very beginning, I was trusted and given the freedom that developed my confidence and gave me a chance to use my creativity. The BHI staff actually makes you an integral part of their team. You feel your responsibility and constantly want to do well." Pradhan, a native of Nepal, was given the task of helping the director of communications collect background information on the political conventions.

Many interns find that BHI's real world experience complements their work in the classroom, particularly since most have studied economics.

Phomdaen Souvanna, a senior at Tufts University, says participation in ongoing projects is critical to the success of the program.

"On the second day of work, I was given the task of researching background information for a current project. I got excited when I came across theories that I have studied in the classroom," remarks Souvanna. "It is rewarding to know that what I have learned in the classroom will finally be put to use. Being able to experience the application of economic theories and analysis to current events is quite different from applying it to theoretical situations in the classroom. BHI has given me that



opportunity and so much more."

Christine Donehue, a senior in economics at Harvard, found herself plumbing the depths of the many variables that make up the institute's annual Competitiveness Report.

"The Competitiveness Report 2004 project provided me with the independence and autonomy that few college interns are lucky enough to experience," says Donehue a resident of Scituate. "This was combined with the knowledge that there were always many intelligent, experienced and helpful economists available whenever I needed advice or assistance."

This year's internship program included an innovative addition. In an effort to highlight the depth and relevance of its free market analysis, BHI staff conducted an all day seminar for the interns. The theme of Intern Day was "Policy into Practice."

Interns also took part in a computer lab, where they learned how best to apply Microsoft Access in a research setting. They also received advice on the job search and application process.

"Policy into Practice" is designed to give a more complete picture of how BHI applies economic methods to current policy issues," says Rebecca Moryl, Director of Operations. "We provide students an understanding of how a research project develops, how that research informs important policy debate, and how all of BHI's work drives the principles of our mission."

BHI expects to continue the program next summer.

"I would recommend this program to anyone, because not only does it give you the chance to hone your communication and research skills, but it also teaches you to think on your feet and solve unforeseen problems that are bound to occur in the real world," says Sirikhwan Khlaiaksorn, a master's candidate in economics at Boston University. ❖



# Obesity

*continued from page 1*

And health concerns become greater, the more sedentary the lifestyle.

## *Pour some sugar on me*

Obviously, though, it is not only what you expend in the physical activity department that determines how far that bathroom scale climbs, but what goes in your body.

The U.S. Department of Agriculture's Economic Research Service states that average daily calorie intake increased by 24.5%, or about 530 calories, between 1970 and 2000. Over a similar time span, the average weight for American men increased from 168 to 180 pounds, while the average weight for women increased from 142 to 152 pounds.

It was only a few years ago that the raging fad was to watch your calorie intake. The awful truth is that most low-fat products tasted awful so the food industry had to add a ton of sugar. The problem with added sugars is that if you do not burn them off they get stored as fat.

Throughout much of the 1990s, the food industry kept pushing low-fat and no-fat products upon us as if these were a panacea for the Calorie-Challenged Generation. But it wasn't selling for long. In 2001, sales of fat-free ice cream were down nearly 17%, low-fat cookies were

down 10.8%, and sales of low-fat sausage were off 8.6%.

Probably the most important cause of America's "obesity epidemic" has been the surge in consumption of high fructose corn syrup (HFCS). This is the sugary substance found in almost all soft drinks and fruit beverages and a wide variety of processed foods.

According to the USDA, average per capita consumption of HFCS increased by over 4000% since the early 70s. And today, the country consumes more sweeteners made from corn than from either sugarcane or beets.

Researchers from Louisiana State University released a study in April that related the emerging obesity epidemic to the dramatic increase in HFCS consumption. While the findings do not provide a conclusive link (and have been heavily criticized by the corn industry), HFCS has emerged as a serious target for America's health conscious. Maybe Kevin Costner had it right in *Field of Dreams*; it's better to turn your corn field into a baseball diamond.

## *Bumper crops of corn with no place to go*

U.S. corn production is extremely efficient: the average yield per acre has nearly doubled

since 1970, and production has more than doubled. In fact, the United States produces so much corn that we have had to find more and more uses for it and HFCS was the new marketing vehicle for farmers.

Today, about five percent of domestically produced corn is used to make HFCS; 57% percent of the corn produced in the United States is used as inexpensive animal feed. What's left is consumed domestically or turned into ethanol or exported. Corn is our nation's largest agricultural export, yielding billions of dollars to corn

producers. Corn, you might say, is doing alright.

While inexpensive animal feed keeps beef prices low, meat from a corn-fed steer may have up to twice as much fat as a comparable cut from a grass-fed animal. Fatter cattle lead to fatter consumers and fatter consumers, we know, lead to \$75 billion in medical expenditures per year. Why, then, one might ask, have taxpayers been forced to spend well over \$35 billion since 1995 subsidizing such an efficient industry? And do we know that such subsidies may be contributing to America's obesity problem?

Since 1977, sweeteners and fats in foods have increased 20%, largely because of farm subsidies. These subsidies have kept retail price increases for snacks, sweets, and similar items well below price increases for fruits and vegetables, which now are sorely lacking in our diets.

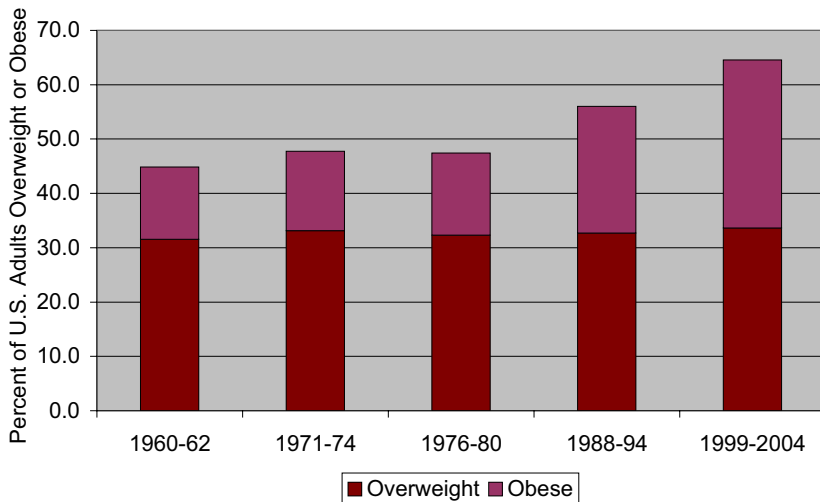
So why the subsidies? Is there any reason to encourage the production of agricultural goods at the expense of others? Do we want to promote farming at the cost of, say, manufacturing or services?

Today, most crops are grown on large commercial farms and most of the subsidies land there too. Indeed, according to the Environmental

*Given the growing costs of obesity, American's handouts to agribusiness are no longer defensible.*

Overweight/Obesity in the United States

Source: Centers for Disease Control



Working Group, in 2002 the top 10% of U.S. farms received 65% of all farm subsidy payments; the top 20% received 81%. These are not small farmers in need of a loan to struggle through the lean years, but large Fortune 500 companies riding the backs of federal taxpayers. Why then are we still subsidizing these corporations? The truth has more to do with political clout and powerful lobbies than protecting small farm income. In fact, average farm household income in 2000 was \$61,947, nearly nine percent higher than the U.S. average.

Clearly, today's farm subsidies are a mess; total USDA agricultural subsidies reached an astounding high of \$23.5 billion in 2000, for an average cost of \$233.22 per American household. They fell two years later only because of higher commodity prices. Nonetheless, according to the Cato Institute, more than 90% of direct federal subsidies were distributed to just five crops: corn, wheat, soybeans, rice and cotton.

This becomes highly relevant when you examine the economics of diets. Dr. Adam Drewnowski, the director of the Center for Public Health Nutrition at the University of Washington says that in today's market it is simply cheaper to eat an unhealthy diet packed with energy-dense foods than one with lean meats, fish, and vegetables.

This helps explain the somewhat paradoxical relationship observed between poverty and obesity. One might expect wealthier Americans, with more disposable income and, theoretically, leisure time, to be more obese. In reality, this is not the case. Obesity tends to be found in higher rates among those with the highest poverty rates and the least education.

As New York Times columnist Michael Pollan explains in an October 12, 2003 article, we, as a nation, have a conflicted agenda:

*"While one hand of the federal government is campaigning against the epidemic of obesity, the other hand is actually subsidizing it, by writing farmers a check for every bushel of corn they can grow...undermining our public-health goals by loosing a tide of cheap calories at home."*

Agricultural subsidies in the United States are inefficient, poorly designed, and amount to a transfer of wealth from working Americans to profitable corporate farms. This outrageous spending (see the

\$190 billion farm bill enacted in 2002) is simply not justified. Given the growing costs of obesity, America's handout to agribusiness are no longer defensible.

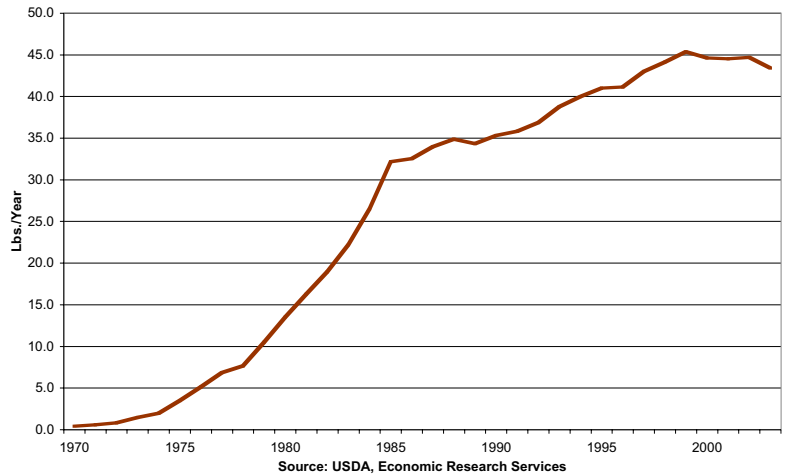
*Just say no to the Twinkie Tax*

Removing subsidies is a step in the right direction. But one irrepressible idea that won't work is more government involvement. Taxing snacks and sugary foods is not the answer.

Nations with higher taxes are no better at battling obesity. Last December the *Wall Street Journal* found that the number of children in Sweden who are overweight has tripled in the past 15 years. This statistic is noteworthy because Sweden regulates things like school lunches and the availability of soft drinks. Ironically, Swedes, like others, find ways to avoid the heavy hand of government. McDonald's sales in Sweden have tripled since 1992, Coca-Cola's ad spending has risen 15 fold since 1994 and calorie consumption has risen by 10% over the last decade.

Norway levies the world's highest soft-drink tax yet still manages to guzzle more than 300 cans of Coke a year per person. So much for government intervention solving that problem.

Per Capita Consumption of HFCS

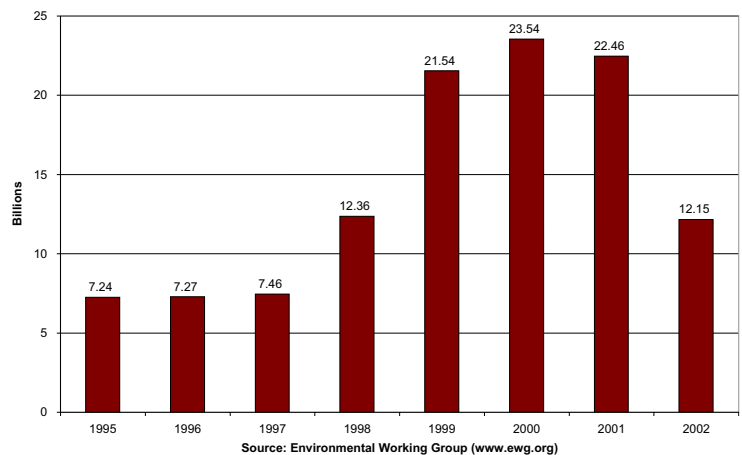


In July, the federal government declared that overweight Americans covered by Medicare will be able to file medical claims for treatments such as stomach surgery and diet programs. One can conclude that American tax dollars for bottles of Slim Fast are right around the corner.

With government subsidies making bad foods cheap, personal responsibility is going the way of the Dodo bird. The obesity epidemic, rather than providing an opportunity for legislative intervention or lawsuits, should be seen as the outgrowth of a misguided policy of subsidizing the production of calories.

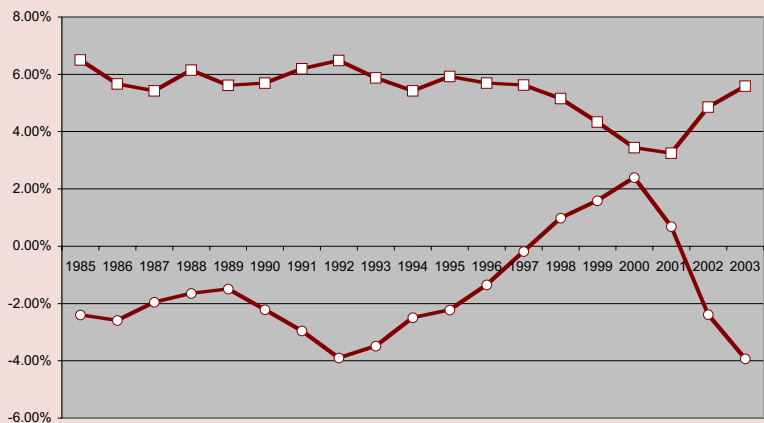


Total U.S. Department of Agriculture Subsidies



## When government saves less...

**Government vs. Private Savings**  
Source: U.S. Department of Commerce, Bureau of Economic Analysis



—○— Net Government surplus or deficit as a % of Net National Product —□— Net private savings as % of Net National Product

In January 2004, the Congressional Budget Office reported that the federal government can be expected to incur a deficit of \$362 billion in 2005 and that the deficit will remain in the red through 2013 (CBO projects a small budget-surplus of \$13 billion in 2014). Reacting to this news, the Democratic National Committee has called President Bush's 2005 Budget, "a deficit disaster," and has claimed that the "large deficits will reduce national saving, crowd out private investment, and slow economic growth."

This pessimism stands in contrast to the summer of 1999, when the Beacon Hill Institute last reported on the matter of government surpluses and deficits. The difference is that, while the country was awash in government surpluses back in those days, it now has big deficits to worry about. And just as a reality check was needed during the euphoria of the 90s it is needed now during the gloom of the 00s.

Keep in mind that government surpluses reflect saving by government and deficits, dissaving. But what matters for investment and for future generations is not just how much govern-

ment is saving (or, as now, dissaving), but how much *the nation as a whole* is saving. The Kerry campaign seems to believe that any reduction in government saving (or increase in government dissaving) translates dollar for dollar into a reduction in national saving. But that theory ignores the fact that national saving is the sum of government saving and private saving. Thus, if a fall in government saving stimulates a rise in private saving, the negative effect on national saving will, to that degree, be offset.

Economists have a name for this phenomenon: the "Ricardian equivalence hypothesis," named after the 19<sup>th</sup>-century economist who spelled it out. The idea is that households and private businesses will increase their saving when government saves less and decrease their saving when government saves more, thus, in effect, cushioning the impact of swings in government saving on national saving and investment.

To see whether this theory holds true today, we created the chart nearby, which compares net government saving and net private saving, both expressed as a fraction of net national product, over the period 1985 to 2003. The graph shows that the two variables move in opposite directions, just as Ricardo predicted. (The correlation coefficient is -0.77, suggesting a strong, negative relationship.)

We see that private savers (households and businesses) are already doing a lot to insulate the economy from the reduction in government saving that has taken place in recent years. And if we are concerned that private saving is not rising rapidly enough to compensate fully for the reduction in government saving, there is a simple solution: Further insulate capital gains, dividends and corporate profits from taxation, thus encouraging more private saving.

The solution to the government deficit problem lies, to that extent, in reducing rather than raising taxes. Of course, there is always the possibility of spending less, but that is an option in which neither the Bush nor the Kerry campaign is showing much interest. ❖

## Tuerck addresses right of way conference in Philadelphia

**E**conomic theory suggests that the value of environmental amenities, such as open space and public land preservation, will be captured in the price of land. Any observed changes in these amenities will ultimately change the local property values. For example, if local government decides to purchase land for open space, the value of nearby homes would increase. If, on the other hand, a project is perceived to reduce the natural beauty of a region, such as Cape Cod, property values are likely to fall. That's the essence of a presentation delivered by David G. Tuerck, Executive Director, BHI to the International Right of Way Association (IRWA) in Philadelphia in June.

More than 200 people attended the discussion seeking to learn how economics applies to the many professions that fall under the umbrella of the IRWA.

A professional organization, IRWA draws its members from a variety of disciplines that negotiate and appraise right of way issues with local governments and utilities among other entities. BHI was invited to attend the conference based on its widely recognized work on wind energy.



In the panel discussion titled "Wind Farm Valuation," Tuerck highlighted the results of a BHI study on a proposed wind farm for Nantucket Sound. In the summer of 2003, BHI commissioned a survey of 501 homeowners in the six communities most likely to be affected by the windmill project. Two thirds of homeowners said that the project would worsen the view of Nantucket Sound "slightly" or "a lot." On average, they expect the project to reduce property values by 4.0%. Households with waterfront property believe that their property will lose 10.9% of its value. These numbers are consistent with the findings of a separate survey of 45 realtors, who estimated that property values would fall by an average of 4.6%. The final report was sent to the U.S. Army Corps of Engineers this past spring. ❖

## The Commonwealth ventures into the 'capital gap'

**W**ith its highly skilled workforce and world-renowned research universities, Massachusetts is an attractive location for high-tech start-up companies and, in turn venture capitalists. According to Thomson Venture Economics, Massachusetts is second only to California in the amount of venture capital its companies receive. And the amount of money invested in venture capital is growing faster in Massachusetts than it is in California.

In 2003, 276 Massachusetts companies secured \$2.52 billion dollars of venture capital financing. With such an impressive record, Massachusetts certainly does not lack the ability to attract venture capital. Still, some believe that the Commonwealth of Massachusetts ought to expand its role as a venture capitalist of last resort.

Massachusetts state government has been a player in this market since 1979 when it established, by statute, the Massachusetts Technology Development Corporation (MTDC) with an initial investment of \$8.2 million in federal and state dollars. MTDC lends only to those companies that can prove they have been denied private funding from every potential source.

One would assume that the vast amounts of venture capital pouring into the state would facilitate ease of access to funding, so why is government getting into the act? If the venture capital market performs efficiently, then start-ups that are denied funding should not be funded: The risk is too high, the returns to low. By intervening in the venture capital market, state government potentially places itself in the business of using tax dollars to support financially unviable projects.

Supporters of the quasi-public venture capital fund claim, however, that the market does not demonstrate allocative efficiency. They note that many viable start-up firms that need less than \$1 million are unable to find it, falling into what is known as the "capital gap."

Because private venture capital fund managers supply management expertise and consulting as well as financing, small-scale investments are often not worth their

time. At the same time, these small start-up firms have neither collateral nor credit histories, making it difficult to borrow from banks. A 1995 article in a British journal, *Accountancy*, asserts that banks "do not always have the internal structures, personnel or the products for equity lending, and the result can be that their lending in this market is at too low a margin for the risk involved." MTDC supporters believe that its willingness to offer small scale funding in partnership with private venture capital firms helps to fill this "capital gap."

Since its inception, the MTDC has invested a total of \$62 million in 115 high-tech Massachusetts companies, which have in turn created 10,535 jobs. Since 1980, MTDC's portfolio has produced an average annual return of 17.9%. This compares favorably with the average US seed- and early-stage venture capital fund annual return of 17.0%.

The MTDC's most profitable investments required patience — its best returns were seen after 7-10 years and are based mostly on the performance of Interleaf Inc., PowerSoft Corp. and Zoom Telephonics Inc., its three most profitable ventures. Like most venture capital funds, the MTDC has also absorbed many losses.

The agency's success, while not necessarily proving the existence of a "capital gap" in the private market, at least disproves the argument that start-up firms that cannot receive private funding are not viable. The returns on viable investments allowed the MTDC to self-finance beginning in 1988, and for 15 years the MTDC operated completely independent of government funds.

The MTDC's intervention in the venture capital market is still open to debate and was the scene of a showdown with the Governor and the Legislature. The state legislature's economic stimulus package presented to Governor Romney in November of 2003 provided for an allotment of \$5m to the MTDC. The governor, a venture capital expert and former CEO at Bain Capital, promptly vetoed the measure, contending that Massachusetts had sufficient start-up funding in the private venture capital market. Any public funding to the agency would be "wasted money." The legislature disagreed, overriding Romney's veto this past January and restoring \$5m to the MTDC.

Once a start-up, the MTDC began with a loan from the state legislature. Fortunately for the taxpayers, the MTDC has met expectations of the legislature, proven to be profitable, and proven

that it can now function without any more public assistance while adhering to its mission of helping fill the "capital gap." Perhaps the MTDC is to be the model for other government programs while continuing to be under the watchful eye for excessive government intrusion on a proper private sector function. ❖

## BookMark

*continued from page 2*

Some of their recommendations (converting the widely popular tax deduction into a tax credit and spending more on public infrastructure) will be received with skepticism by free-market advocates. Others (scrapping or reforming restrictive zoning practices) will prove more welcome.

How best to promote home ownership is among the important issues that municipalities, states and federal government officials must confront. The growing "intergenerational storm" will drive up the costs for housing, as economic insecurity and the volatile stock market increase the pressure for real assets such as a home. This book will prove most valuable to policy makers charged with weathering this storm. ❖

## Tell us what you think!

Take some time to comment on this issue's lead story by voicing your opinion on our current PulsePoll. Visit [www.beaconhill.org](http://www.beaconhill.org) today!

**PulsePoll**

What do you think is the most significant cause of obesity in the U.S.?

- Not enough exercise
- Poor eating habits
- Genetic or family history
- Lack of government regulations
- Don't know

view results 

## In Point of Fact

T

rapped by the law of unintended consequences

State officials have confirmed what many people who live near streams and other bodies of water throughout Massachusetts have known for some time: There has been an explosion of the beaver population. Arnie Rill, 80, a life-long resident of Lunenburg who said he has been trapping beavers since he was 10 years old, told the Sentinel and Enterprise newspaper of Fitchburg, "There are more beavers now than I've ever seen in my life." According to Chrissy Henner, a furbearer biologist for the Massachusetts Division of Fisheries and Wildlife, the beaver population has tripled since state legislation first prohibited the use of numerous animal traps in 1996. Many trappers quit the business after the law was passed, causing the beaver population to increase dramatically, wildlife officials said. "Decline in trapping said to cause rise in beaver population," *Boston Globe*, August 2, 2004.

### Would you like to supersize those profits, sir?

Call it the Spurlock Effect. By now, Morgan Spurlock's hilarious, anti-McDonald's fairy tale, "Super Size Me," has found a large audience for what is essentially a home video about a guy pigging out on fast food. The movie purports to be a searing indictment of the Evil Hamburger Empire. But is it possible, as my colleague Joshua Glenn suggested to me, that Spurlock has actually helped McDonald's by reintroducing the art-house-frequenting cinema hip-oisie to the sheer delight of chowing down on a piping hot, grease-seeping Big Mac? Let's look at the numbers. "Super Size Me" hit theaters in May. Just last week, McDonald's reported record hamburger sales — in fact their highest sales since 1984! That is worldwide. In

the United States, "year-to-date May comparable sales are the best they've been since 1973 — the year the Quarter Pounder became a permanent menu item," according to Charlie Bell, McDonald's president and chief executive officer. "'Super Size' matters?", Alex Beam, *Boston Globe*, June 15, 2004.

### Fair trade pricing power

At a Whole Foods Market in suburban Boston, the coffee aisle recently was lined with leaflets promising to donate 5% of sales to growers. Labels proclaimed that beans were "purchased in accordance with international fair trade standards." Pamphlets asked: "Is your coffee fair to farmers?" The materials reflect a growing international campaign to pay struggling farmers in poor countries more than market rate for commodities like coffee, bananas and chocolate. The extra cash has helped thousands of farmers fund education, health-care and training projects, among other things. But as "fair trade" catches on in the U.S., Europe's experience shows that the biggest winners aren't always the farmers — but can be retailers that sometimes charge huge markups on fair-trade goods while promoting themselves as good corporate citizens. They can get away with it because consumers usually are given little or no information about how much of a product's price goes to farmers.

"Stores Charge Big Markups On Goods Intended to Help Farmers in Poor Countries: Bananas at \$2.74 a Bunch," Steve Stecklow and Erin White, *Wall Street Journal*, June 8, 2004.

### Hey dude where's my gas can?

Hybrid cars are hot, but not as hot as their owners, who complain that their gas mileage hasn't come close to well-advertised estimates. Don't knock the car companies for inflated claims: Experts say the blame lies with the 19-year-old EPA fuel-efficiency test that overstates hybrid performance. Pete Blackshaw was so excited about getting a hy-

brid gasoline-electric car that he had his wife videotape the trip to the Honda dealership to pick up his Civic Hybrid. The enthusiastic owner ordered a customized license plate with "MO MILES" on it, and started a blog about his new hybrid lifestyle. But after a few months of commuting to his job in Cincinnati, Blackshaw's hybrid euphoria vanished as his car's odometer revealed that the gas mileage he was hoping for was only a pipe dream. Honda's Civic Hybrid is rated by the EPA to get 47 miles per gallon in the city, and 48 mpg on the highway. After nearly 1,000 miles of mostly city driving, Blackshaw was getting 31.4 mpg. "I feel like a complete fraud driving around Cincinnati with a license plate that says MO MILES," says Blackshaw, who claims that after 4,000 miles his car has never gotten more than 33 mpg on any trip. The tenor of Blackshaw's blog shifted from adulation to frustration after his Honda dealer confirmed that his car was functioning properly, and that there was nothing he could do. "Hybrid Mileage Comes Up Short," John Gartner, *Wired News*, May 11, 2004.

### Tax reform by a nose?

Lawyers for an Israeli model in Jerusalem have filed a request with tax authorities asking them to make the cost of plastic surgery tax deductible. The model's lawyers claim their client's career is dependent on her maintaining her good looks, arguing that a precedent had been set by the entitlement of tax deductions for the cost of suits for businessmen. The model was not named but former beauty queen Tali Lowenthal praised the move. "If models have a nose job to look better for work purposes that ought to be a tax deductible expense just like any other business expense, because a model's looks and body are part of the business," she told the Yediot Aharonot newspaper.

"Israeli model wants tax break for plastic surgery," *The Australian*, June 6, 2004.

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# SPECIAL REPORT



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## *Thomas Keane and the Renaissance of Yellow Journalism*

**O**n July 23, 2004, columnist Thomas Keane, Jr. wrote a wide-ranging attack on the Beacon Hill Institute (“Beacon Hill Institute really is in the dark”) in the *Boston Herald*. On August 11, Keane launched a second attack, this one focusing on the Institute’s coverage of the Democratic National Convention. The two columns constituted an attempt to damage the Institute’s reputation for honest and thorough scholarship. Riddled as they were with false accusations and errors of fact, it would seem that the columns reflect mainly on their author and on the newspaper in which they appeared.

Thomas Keane is hardly the first newspaper writer to abandon objectivity in pursuit of some personal goal. In fact, publisher William Randolph Hearst became so well known for a similar practice in the 1890s that his critics gave it a name: “yellow journalism.” Hearst employed this style most famously to the end of pushing the United States into war with Spain.

Now columnist Keane has aimed for a more modest result, i.e., to retaliate for our work on the Democratic National Convention. It seems that Mr. Keane has enlisted as one of Mayor Tom Menino’s soldiers in rebuking us for exposing the mayor’s exaggerated claims about the convention’s benefits to the Boston economy.

Mr. Keane made no effort to contact BHI prior to publication. Nor, apparently, did he try in any other fashion to corroborate his allegations, each of which is either just wrong or a distortion of the truth. We can only conclude that Mr. Keane would, in this manner, have done Hearst proud: showing that he can repeatedly use his access to ink to say anything he wants, no matter how erroneous his allegations. Indeed, Keane’s columns can be seen as part of a wider trend to renew Hearst’s journalistic style – a renaissance of yellow journalism. It is a style that betrays a shameless and reckless disregard for the truth, combined with the personal satisfaction that certain pundits derive from the effective use of misrepresentation as a smear tactic.

But it is not enough to expose Keane’s motives. It is necessary also to consider the specifics of his allegations. Here we summarize them and our rebuttals. See our website at <http://www.beaconhill.org> for further details.

### *On Keane’s Remarks*

Keane: “Some of BHI’s work is barely disguised ideology,” as evidenced by a 1994 report describing a proposed graduated income tax as taking the “slippery road to serfdom.”

BHI: The phrase comes from Nobel laureate Friedrich Hayek’s acclaimed book, *The Road to Serfdom*, in which Hayek wrote about the threat to democracy posed by income-leveling government policies. It appears that the *Boston Herald*, which cited our work in several editorials opposing the graduated income tax, shared our view, as did the voters, who defeated the proposed tax by an overwhelming margin.

Keane: “[BHI] argued in 2002 that eliminating the state income tax would create 300,000 to 500,000 jobs.”

BHI: False. This estimate did not come from us. It came from sponsors of a ballot measure to abolish the income tax, who attributed it to us without our approval. We put our disavowal of the estimate on the record in the October 20, 2002 issue of the *Worcester Telegram & Gazette*.

Keane: BHI “conducted an extraordinarily questionable analysis” of a proposed wind farm in Nantucket Sound.

BHI: False. In fact, our work was performed with meticulous attention to scientific rigor. Our readers can

(over)

review our report to the Army Corps of Engineers (available on our website) and make their own assessment.

Keane: A questionnaire BHI used to survey Cape tourists and homeowners on the proposed wind farm was “obviously designed to provoke a negative response.” The intended negative response is apparent, in part, because the survey compared “the wind turbines to the size of the Statue of Liberty.”

BHI: False. Our questionnaire was designed and administered to the specifications of an independent survey research firm and crafted to be as neutral as possible in soliciting responses from tourists and homeowners. The wind turbines would be 417 feet tall. The Statue of Liberty is 305 feet tall. The *Boston Herald* itself has used this comparison to give readers an idea of how imposing the windmills would be.

Keane: The margin of error in BHI’s survey “could effectively undermine” the finding that the wind farm would reduce tourism and that homeowners expected a decline in property values.

BHI: False. The findings on tourism and property values are significant at the 5% level, or better.

Keane: BHI’s survey findings about tourism and property values “became the basis for [its] conclusion that the costs of the wind farm were greater than its benefits.”

BHI: False. Our cost-benefit analysis used none of our survey findings about tourism or property values.

Keane: BHI’s “conclusions about educational reform are belied by consistent improvements in MCAS scores.”

BHI: False. Improvements in MCAS scores, which we acknowledge, have no bearing on our conclusions.

Keane: “On March 30, [BHI] released a study claiming the net benefits from the [Democratic] convention would be \$121.6 million. A week later, it released another study saying the net loss would be \$12.8 million....BHI had forgotten to include costs – such as disruptions to traffic – in its analysis. Yet the revised version was equally flawed, with ‘costs’ (such as the cancellation of a planned Tall Ships visit) wildly inflated.”

BHI: We didn’t “forget” to include anything. As part of our ongoing analysis of the economic impacts of both the

Democratic and Republican National Conventions, we updated our analysis as new information about the conventions was revealed. Our post-convention analysis shows that the convention did not deliver on the promised benefits to Boston business – which is the real source of Keane’s diatribes.

Keane: “Last year BHI claimed people choose to live in communities that tax their residents the least.”

BHI: We made no such claim. We acknowledged that people might well choose to live in high-tax areas that spend more generously on government programs, just as they might choose low-tax areas that spend less generously.

### *Conclusion*

What do we learn from this episode? Most fundamentally, that the details don’t matter when it comes to practicing yellow journalism. The goal is to throw out just enough in the way of supposed “facts,” however far from the truth they may be, to accomplish the sought-for result. When the entity attacked (BHI, in this instance) issues a rebuttal, the details will seem like nitpicking and merely argumentative, in comparison to the willingness of a supposedly reputable newspaper to put the attack into print in the first place.

The Keane columns also say something about the low importance the author must attach to his own reputation. We must imagine his mindset: So what if he got this or that wrong? So what if he never heard of a famous book or doltishly got wrong the comparative height of the Statue of Liberty? So what if he doesn’t understand the nuances of survey research or cost-benefit analysis? Mr. Keane, in the style of yellow journalism, never believed his own reputation was sufficiently worth protecting in the first place to get any of this right. For a writer of his ilk, a pat on the back from City Hall is far more satisfying than a reputation for journalistic competence or integrity, what with all the hard work involved in chasing down and verifying the facts.

When Hearst practiced yellow journalism, he, too, received criticism from readers who saw his writing for what it was. But Hearst sold papers, much like front-page exposes of Britney Spears and vituperative opinion pieces sell papers today. And now that we know something about him, perhaps we should hope that Mr. Keane will continue to write about us. After all, he offers himself up as a useful foil for exposing the worst in published opinion on public policy issues.

*Thomas Keane's columns say something about the low importance the author must attach to his own reputation.*

