NewsLink

THE BEACON HILL INSTITUTE AT SUFFOLK UNIVERSITY

Vol. 9, No. 2 | Ideas and updates on public policy | Winter 2005

Beyond Ukraine's Orange Revolution

Letter from Kiev

by Vadym Slobodyanyuk

It is not often in the annals of history that peaceful revolutions evoke peaceful transitions. But in December in Kiev, Ukraine in the midst of electoral turmoil, the atmosphere did not fit the definition of a wide-ranging revolution. The waves of orange, the choice color of reformers in the streets, became etched in memory. Where three years earlier protestors clashed with police, the Orange Revolution remained benevolent in the aftermath of a corrupt election won by Moscow-backed Victor Yanukovich.

Graphics: Carina Cilluffo

The once unpopular police guarding the presidential compound, convinced that their fellow countrymen meant no harm, soon allowed their shields to be draped in orange flowers and ribbons. Journalists also became a part of the revolution by revolting against government control and strict censorship on the part of both the government and the owners of private media. December 2004 was a thrilling time to be in this renowned city and I, as a Ukrainian native, consider myself privileged to have been there to experience it.

Now that the most dramatic days of the Orange Revolution in Ukraine are over, new President Viktor Yuschenko, who represents "Our Ukraine," the largest faction in the Ukrainian parliament, having found himself the ultimate victor of a free and fair election, today faces a more challenging task – meeting the expectations of the people who fought hard to change their country.

Thus far those expectations are high. Most of the forces driving the Orange Revolution gravitated around political issues such as corruption, but now Yuschenko must address economic issues. To be sure, the people revolted against a corrupt system where bribes remain rampant and where favored families and clans control factories and plants. Failed privatization schemes also drove the people to revolt.

continued on page 3

Emerging issues mark 2005 State of the Household Survey

Confidence in the Massachusetts economy appears once again to trail the confidence some Bay State residents have in the improving national economy according to The Beacon Hill Institute's State of the Household Survey 2005. And few see their own economic standing moving in sync with whatever improvement takes place in the Massachusetts economy.

Amidst the gap between the outlook for the national and Massachusetts economy are key divisions that are quickly emerging among fiscal conservatives on issues likely to go before the state legislature this year.

As with last year's survey, marked divisions on key issues such as tax breaks for industry, outsourcing and casino gambling emerged as trends to watch in the coming year. Moreover, fiscal conservatives' support for drug reimportation and higher tobacco taxes show that broad support exists for such policies.

These particular positions stand in stark contrast to the otherwise mainstream conservative views on taxes, regulation and government reform. The State of the Household Survey reveals that a majority of respondents continue to believe that low taxes and less regulation are better for the economy than are spending programs.

The mail-in survey, sponsored by BHI, has been conducted each January since 1998. More than 425 individuals responded to this year's survey, which has a margin of error of +/-5 percentage points. The survey represents a sample of fiscal conservatives in Massachusetts who support free-market policies and the candidates who espouse them.

Respondents to the survey are more optimistic about the national economy than about the state economy and more optimistic about the state economy than about their personal finances.

While 64% believe that the national economy will improve this year, only 50% are similarly hopeful about the Massachusetts economy in spite of the fact that for December 2004, the Bay State's unemployment rate of 4.6% was lower than the national average of 5.4%. These findings are generally in line with other surveys that show a gap between confidence in the Massachusetts economy and the national

continued on page 2

BHI Survey

continued from page 1

economy. Economists suggest that the Bay State's economy is still lagging behind the expanding national economy even as more revenues pour into the state's coffers. Any growing confidence in the state's economy might be offset by weak job creation.

Fifty percent (50%) see their household finances as neither improving nor worsening with only 34% anticipating improvement this year. Only 21% believe that their own economic standing and that of the state are improving as they enter 2005 — a decrease of 13 percentage points from last year.

Reflecting support for his fiscal and economic policies, respondents overwhelmingly believe that Governor Mitt Romney (82%) is performing well in his job – a seven-point increase from last year.

Respondents to the survey also:

- support tax reduction (84% want the personal income tax rate cut to 5%);
- want to abolish the state excise tax on cars (62% would favor this measure);
- would accept a plan that allows landlords to charge tenants for water use (75%);
- support reforming Social Security by establishing private savings accounts (69%); 54% favor reforming Social Security by means other than private accounts. Only 4% believe that Social Security should be left alone;
- oppose any proposal that would cap the number of charter schools (59%); and,
- support a proposal to create an independent commission to redraw legislative and congressional districts (70%).

State of the Household Survey 2005	Improve	Neither or no opinion	Worsen
During 2005 do you expect the **global** economy to…	46%	41%	13%
During 2005 do you expect the **national** economy to…	64	22	14
During 2005 do you expect the **Massachusetts** economy to…	50	35	15
As you enter the new year do you expect your **household finances** to...	34	50	16
Do you support or oppose each of the following proposals that are likely to be raised in Massachusetts in the coming year? A proposal	**Support**	**Neither support nor oppose**	**Oppose**
Requiring employers to **provide health insurance or pay into a funding pool.**	44	13	43
Raising **tobacco taxes to provide funding for expanded health care** coverage.	52	12	36
Preventing or limiting State from contracting with firms that **outsource overseas.**	36	14	50
Capping the number of charter schools in the Commonwealth.	20	21	59
Creating an independent commission to **draw legislative and congressional districts.**	70	21	9
Abolishing the **excise tax on motor vehicles.**	62	16	22
Cutting local aid to cities and towns.	17	17	66
Capping damages in medical malpractice jury awards.	87	5	8
Eliminating **nursing home tax** on non-Medicaid residents.	70	25	5
Allowing landlords to **charge tenants for water use.**	75	13	12
Do you favor or oppose each of the following?	**Favor**	**Neither favor nor oppose**	**Oppose**
The **redirection of funds** to assist the poor from government to **nonprofit organizations.**	61	21	18
A continuation of **education reform** at its current level.	63	25	12
A proposal to build **130 wind turbines on Nantucket Sound.**	63	13	24
The establishment of **casino gambling.**	38	12	50
Reforming Social Security by establishing **private savings accounts.**	69	9	22
Reforming Social Security by means **other than private** savings accounts.	54	31	15
A **targeted tax cut for the biotechnology** industry.	35	30	35
Requiring Medicaid recipients to **absorb a larger share** of their health care costs.	51	19	30
Do you agree or disagree with each of the following?	**Agree**	**Neither agree nor disagree**	**Disagree**
Governor Mitt Romney has done well in office thus far.	82	8	10
Cut state personal income tax to 5% by the end of Romney's first term.	84	7	9
States, cities and towns **free to buy drugs from Canada.**	62	14	24
State **tax incentives for manufacturing.**	76	7	17
Agree or disagree: **"I get more of my daily news from the Internet rather than reading a newspaper."**	23	12	65

Thinking out of the box

However, the survey identified several surprises. The survey identified divisions on emerging issues such as drug reimportation and what to do about health care.

Sixty-two percent (62%) believe that states, cities and towns should be free to purchase drugs from Canada, a ten-point drop from last year. Only 24% agree with the state's biotech industry that the public sector should not be allowed to buy drugs from Canada.

Forty-four percent (44%) favor a proposal that would require employers to provide health insurance or pay into a funding pool while 43% opposed. Thirteen percent (13%) were undecided. Last year 51% opposed any kind of law mandating universal health care in the Bay State (down from 56% in 2003).

Fifty-two percent (52%) favor raising tobacco taxes to expand health care coverage.

Fifty percent (50%) oppose the establishment of casino gambling, while 38% favor it. Twelve percent (12%) were undecided.

Thirty-six percent (36%) favor limitations on the ability of the Commonwealth to contract with firms that outsource jobs overseas, while 50% oppose such measures with 14% undecided.

Respondents sent mixed signals on how best to use tax policy to help businesses create jobs in the Commonwealth. An equal number opposed targeted tax cuts for the biotech industry (35%) as supported them (35%). However, 30% expressed no opinion on the question; one of the largest undecided blocs of any policy question in the survey. This response, along with the sentiment on drug reimportation, suggests that the state's biotech industry is still struggling to gets its message across to the public.

Tax incentives for manufacturing continue to tell another story. Respondents appear to be attached to the notion that the Commonwealth needs to hold onto manufacturing industries even while most of the state's economy evolves around services.

continued on page 7

Letter from Kiev

continued from page 1

The first actions of the newly elected president prove that he does not intend to play cat and mouse with either Ukraine's partners, or with the people. By declaring he would like Ukraine to join the European Union, Yuschenko is sending a message to Russian President Vladimir Putin that the Russian republic is not a priority.

When it comes to finding Ukraine's place in the world, Yuschenko is looking to the West. Specifically he is pursuing political and economic integration into the European Union. He expects Ukraine to be a member nation within the next decade. Yuschenko strongly maintains that by looking westward rather than to the north, he will be able to increase Ukraine's living standards and dramatically improve economic conditions in the country, all while gaining access to one of the largest marketplaces in the world.

"I have a clear plan of transformations in our country for the next five years and a team that can carry it out," President Yuschenko said boldly. "I will not speak about its details now; I will only say that it is based on the realization of our strategic foreign policy goal which is membership in the European Union."

At the World Economic Forum in Davos, Switzerland, Yuschenko once again called for integration into the EU. But officials downplayed talk of membership insisting that Ukraine for the time being would be best observed as part of the EU's "neighborhood policy."

Significant improvement in economic conditions is what people expect from the new president. In his program, titled "Ten steps towards people," Yuschenko promises to create 5 million jobs over 5 years (A huge task since the entire population of Ukraine is 48 million). He also plans to increase investment tenfold, reduce tax rates, increase budget revenues, prioritize social programs, increase benefits and pensions, eliminate wage arrears, fight corruption, reduce government apparatus, reduce the underground economy, improve public safety and national defense. Yuschenko also wants Ukraine to join the World Trade Organization. These are serious ambitions.

Ukraine is rich in natural resources that might make it attractive to investors. The country's major sources of income – base metals, metals processing and petroleum – comprise 50% of exports. These high value exports have been driving the respectable economic growth in the country. Last year's real GDP grew at a twelve percent rate. Moreover the nation is a fertile source for high technology. Ukraine benefits from an educated labor force. As it grows, Ukraine's industrial base will need to encourage trade with EU and the U.S. so that it can upgrade its infrastructure. However, roadblocks remain. President Bush's protectionist steel measures hurt trade and growing pressures to protect textile jobs in the U.S. have also stunted growth. Transportation logistics also limit opportunities. Moving exports is expensive which gives the EU an advantage over the U.S. in any future trade pacts. Massachusetts' trade with Ukraine amounts to approximately $3 million per year – mostly computers and electronics – according to the U.S. International Trade Association.

It is clear that Yuschenko, hardly a market liberal, will have to restore trust in the institutions needed to nurture economic growth.

One of the biggest problems is the nation's tax system. Tax evasion is rampant. Incomes are underreported, despite a nominal flat tax rate of 13%. Much of the nation's income is "off the books." Official statistics cite that average annual household income in Ukraine is $1,608, a highly unrealistic measure. It's clear that Yuschenko, hardly a market liberal, will have to restore trust in the institutions needed to nurture economic growth.

A wide spectrum of changes makes his task challenging even without additional obstacles. But there are three major forces that will make it even harder to achieve his goals: the domestic opposition, Russia and the European Union.

Domestic opposition: Parliamentary elections in Ukraine are scheduled for the spring of 2006. Very soon the same forces that contested presidential elections in the end of 2004 will find themselves bogged down in a tough fight for a majority in the Ukrainian parliament. This battle becomes ever more important with the compromise constitutional changes that will see Ukraine transform into a parliamentary-presidential republic. The role of the parliament and the prime minister will increase (the government will be appointed by the parliament, not by the president) and the president will become weak without sufficient support in the parliament. A majority in the parliament is also crucial for passage of the necessary laws that will lay the foundation for the reforms.

Russia: Ukraine does not want to lose and will not lose its ties with Russia. Despite noticeable cooling in the communication of political elites, Russia and Ukraine will remain strategic partners in the foreseeable future because of strong cultural, historical and economic

continued on page 6

Make a sound economic choice!

Receive your quarterly *Newslink* by email.

- Receive *Newslink* in your inbox before the print version hits the streets.

- Save BHI money on printing and mailing that we will redirect to research and outreach.

Email *Newslink* editor Frank Conte at fconte@beaconhill.org with your name and preferred address indicating that you'd like to receive your *Newslink* subscription via email.

Bookmark

Follow the flock, romance the smart mob

The Wisdom of Crowds: Why the Many Are Smarter than the Few and How Collective Wisdom Shapes Business, Economies, Societies and Nations by James Surowiecki, Doubleday, 2004, 296 pages.

In the fall of 1906, the well-bred British statistician Francis Galton left his home to check out the West of England Fat Stock and Poultry Exhibition, a regional fair. Galton was a man obsessed with two things: breeding and statistics. What better place for an eminent Victorian to be than a fair where he could witness first-hand the effects of good and bad breeding? As he walked through the fair, Galton stumbled across a weight-judging competition. The fair's organizers had selected one fat ox and soon hundreds of fairgoers were lining up to place bets on the weight of the finely dressed carcass.

These bettors came from all walks of life, some may hardly have known as much as the butchers and farmers with their inside information. Based on no more than smalltalk, these non-experts competed offering their best guess. Galton did not think much of the enterprise — employing the argument that the bettors like most voters were rationally ignorant. "The average competitor," he later wrote, "was probably as well fitted for making a just estimate of the dressed weight of the ox, as an average voter is of judging the merits of most political issues on which he votes." Alas, the poor folks would have no clue, surmised Galton because they were merely average. In keeping with the consciousness of his refined class (this was the turn of the century, after all) Galton believed that average people were capable of very little. So being the inquisitive man of science and having an open mind, Galton decided to run an experiment. After the contest was over and prizes distributed, Galton borrowed the tickets from the fair's organizers and ran statistical tests on them. He then calculated the mean value and found much to his surprise (or shock) that the crowd collectively found that the poor old fat ox weighed 1,197 pounds. Its actual weight was just one pound more: 1,198. "The result seems more creditable to the trustworthiness of a democratic judgment than might have been expected." And thus did the effete gentlemen from Plymouth discover the wisdom of the crowd.

James Surowiecki recalls Galton's experiment on an autumnal afternoon as a perfect introduction to his remarkable and fascinating polemic on the wisdom that two heads are clearly better than one. Or put another way: There is something to be said for groupthink, properly understood.

Surowiecki, a financial writer for the *New Yorker*, thinks that groups — or better yet aggregates of individuals – can collectively make wise decisions. Wisdom is more widespread than we think. Surowiecki finds the wisdom of crowds at work in Iowa Electronic Markets and Google; the open software movement and most collaborative scientific research.

> ***People, if we care to look, have a great ability to coordinate their actions without many rules or rulers.***

But more telling is how, without any central authority, we manage each day to walk into crowds of pedestrians without knocking them down or drive upon interstate highways without much damage considering the sheer numbers of people on the road. People, if we care to look, have a great ability to coordinate their actions without many rules or rulers.

Nobel Prize economist Vernon Smith proved that "naïve, unsophisticated agents" can coordinate themselves "to achieve complex, mutually beneficial ends." Suroweicki is a market enthusiast and he wishes more people could marvel, like Frederic Bastiat, at how well markets move products from the people who can produce them most cheaply to the people who want them most fervently. "What's mysterious is that this is supposed to happen without anyone seeing the whole picture of what the market is doing, and without anyone knowing in advance what a good answer will look like," notes the author.

On the other hand for example, he shows where there is no wisdom: NASA (as it confronted the Challenger and Columbia catastrophes), network television executives (who continue to rely on the increasingly obsolete Neilson television ratings system), movie theater owners (who refuse to part with a one-price-fits-all strategy for turkeys like *Gigli*) and Long Term Capital Management, the hedge fund that nearly brought the world to financial calamity in the late 1990s. These, along with stock market bubbles are examples, where very smart people working collectively produce poor results.

Surowiecki is up against the mythic ethos of someone like Henry David Thoreau who once said, "The mass never comes up to the standard of its best member, but on the contrary degrades itself to a level with the lowest." The author Charles Mackay of the 1841 classic, *Extraordinary Popular Delusions and the Madness of Crowds* scoffed that crowds could ascertain anything.

continued on page 5

Make them listen!

Contributions of all sizes from individuals, foundations and corporations support the Beacon Hill Institute. To make a contribution just use the postage-paid envelope in this newsletter.

Yes, I want to support the Beacon Hill Institute. I enclose a check for $____

Name (please print) _____

Address _____

City, State, Zip _____

Phone _____ **Fax** _____

Please make checks payable to Beacon Hill Institute at Suffolk University. All contributions are tax deductible under section 501(c)(3) of the IRS code, as gifts to Suffolk University. Beacon Hill Institute, Suffolk University, 8 Ashburton Place, Boston, MA 02108-2770.

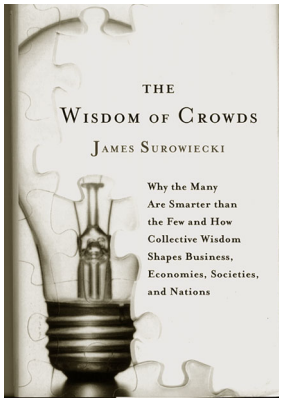
Wisdom of Crowds

continued from page 4

More recently, Ralph Cordiner, former chairman of General Electric, once boasted that "if you can name for me one great discovery or decision that was made by a committee, I will find you the one man in that committee who had the lonely insight – while he was shaving or on his way to work, or maybe while the rest of the committee was chattering away – the lonely insight that solved the problem and was the basis for the decision."

What exactly did MacKay and Thoreau and later Galton and Cordiner overlook?

While there is much room for the pursuits of entrepreneurs and rugged individualists (Surowiecki gives an approving nod to "methodological individualism"), the author places enormous faith in a synthesis where independence — even to the point of irrationality within a group — guards against errors. More specifically, the more influence a member of a group has upon another member the less likely good decisions will be made.



He writes, "Diversity and independence are important because the best collective decisions are the product of disagreement and contest, not consensus and compromise. An intelligent group, especially when confronted with cognition problems, does not ask its members to modify their positions in order to let the group reach a decision everyone can be happy with. Instead, if figures out how to use mechanisms – like market prices, or intelligent voting systems — to aggregate and produce collective judgments that represent not what any one person in the group thinks but rather, in some sense, what they all think. Paradoxically, the best way for a group to be smart is for each person in it to think and act as independently as possible."

This is distinct from the idea of herding. Professional money managers rarely beat the market because they herd and according to Surowiecki "in doing so, they destroy whatever information advantage they might have had, since the mimicking managers are not trading on their own information but are relying on the information of others."

To make his argument cogent and compelling, Surowiecki relies on the work of many economists from diverse schools of thought from John Maynard Keynes to Ronald Coase to the growing adherents of behavioral economics. But no one can approach the enormous influence of Hayek upon Suroweicki where the great Austrian's theory of market coordination holds sway.

In his seminal work "The Uses of Knowledge in Society," Hayek stressed the importance of how a price system could coordinate the resources of many disparate individuals.[1] This was possible because many of the players— without regard to a central authority — retained "tacit knowledge." This knowledge emerges from the experience of each player and is often contingent on local conditions that no administrator can replicate. This tacit knowledge is crucial to efficiency because the ensuing order enables producers to properly allocate their products to consumers who are most willing to pay for them. A market system based on prices that serve as signals demonstrates the allocative superiority of capitalism over socialism.

But as Surowiecki acknowledges, Hayek did not view "the market as a kind of giant calculating machine." For Hayek, the virtues of the market lay in its decentralized nature with buyers and sellers achieving their ends only through the price system. Surowiecki believes, with good reason, that Hayek's fear of socialism prevented him from realizing the benefits of aggregating diverse opinions to glean the wisdom of the crowd. Hayek was right to worry about socialist calculation but he did not foresee the dominance of technology and the way that technology could be used to centralize decision making away from his decentralized ideal. Both Hayek and Surowiecki rely on the premise that local knowledge — intuition, limited personal information, rule of thumb — are the endgame of coordination. However, the decline in price for computing power has enabled industrial organizations to substitute aggregated information for local knowledge.

The legal scholar Richard Epstein notes that this shift away from local knowledge is the result of cheaper and readily available technology. "It is not that local knowledge is disreputable. It is that it can become ineffective in at least some walks of life relative to more systemic, number-crunching attacks on certain problems."[2] The increasing role of technology deployed by both governments and corporations even at the expense of local knowledge does not diminish Surowiecki's brilliant "autobiography of an idea." The author's thesis is vital because it renews a faith in a democratic ethos that can generate as good a solution as that of an expert, public official or a computer. "State a moral case for a ploughman and a professor," wrote Thomas Jefferson, "the former will decide it as well and often better than the latter because he has not been led astray by artificial rules."

(Endnotes)

[1] For an exposition of Hayek's argument in favor of local knowledge, see F.A. Hayek, "The Use of Knowledge in Society," *American Economic Review*, XXXV, No. 4; September, 1945, pp. 519-30; Internet, available at http://www.econlib.org/library/Essays/hykKnw1.html, accessed February 28, 2005.

[2] Richard A. Epstein, "The Uses and Limits of Local Knowledge: A Cautionary Note on Hayek," *New York University Journal of Law and Liberty*, I, No. 0; Internet; available at http://www.law.nyu.edu/journals/liberty/Images/11%20-%20Epstein.pdf; accessed February 28, 2005. ❖

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. The institute uses statistical, mathematical and econometric methods to provide timely and readable analyses that help voters, policy makers and opinion leaders understand today's major public policy issues.

Publisher
David G. Tuerck
executive director

Editor
Frank Conte
director, communications

Associate Editor
Christopher Boyd
Operations Coordinator

(ISSN 1094-0707)

©2005. Beacon Hill Institute for Public Policy Research, Suffolk University, 8 Ashburton Place, Boston, MA 02108-2770. Voice: (617) 573-8750; fax: (617) 720-4272; e-mail: bhi@beaconhill.org; web site: http://www.beaconhill.org.

BHI hosts Brighton High School students on Job Shadow Day '05

February 2 marks more than Groundhog Day. It's also the time of the year that the Beacon Hill Institute invites students participating in Job Shadow Day to learn about the workings of a busy think tank. Kyle Nedd, Kenneth Domingos and Jessica Rodriguez, three students from Brighton High School (pictured below from bottom to top) got an inside look at BHI. The three students, all sophomores, asked questions about the institute, the world of economics, professional life and the skill set needed to develop, manage and promote the institute's mission. The students also completed several tasks including updating BHI's web site and analyzing the results from a recent survey. After meeting BHI staff, they were treated to a complimentary lunch.

This is the fifth year BHI has participated in the program sponsored by the Boston Private Industry Council. "As a public policy organization located in the heart of the city and one often concerned with urban economic issues, the institute is pleased to open its doors each year to students from the Boston public schools," said Conte. "The half-day visit also provides students like Kyle, Kenneth and Jessica from neighborhoods like Mattapan, East Boston and Roslindale an opportunity to learn about Suffolk University and what it offers in terms of an educational experience."

PhD & Master's in Economics

Looking to improve your economic forecast?

Applied, full- or part-time degrees offered from our downtown Boston campus.

PhD Economics
- Economic Policy
- International Economics
- Econometrics

MS Economic Policy
MS Intl Economics
MS Intl Economics/JD

FOR MORE INFORMATION
Email: rmoryl@suffolk.edu

College of Arts & Sciences
Suffolk University
Beacon Hill · Boston · MA

www.suffolk.edu/economics

Letter from Kiev

continued from page 3

links. Despite the media emphasis on ethnic differences, the Ukrainians, who have relatives and friends in Russia, do not dislike their neighbors to the north. Yuschenko's recent trip to Moscow, his first port of call, underscores this relationship. For all the talk about extending trade, Russia remains a major trading partner. About 41% of Ukraine's imports come from Russia with 18% of the country's exports go to Russia.

Thus far, the new leadership has been successful in distancing itself from Moscow's influence and there are signs that Ukraine will be a much tougher negotiator in the future. It is not clear, however, whether Ukraine will achieve significant revision of the preliminary Common Economic Space (CES) a regional agreement between Russia, Ukraine, Belarus and Kazakhstan, but Yuschenko has already stated that Ukraine wants to give the agreement another look. Russia, on the other hand, has no interest in losing its grip on Ukraine and will use all it has in store to ensure that Ukraine's road to the EU is not a cakewalk.

EU: Finally, EU's own rules, regulations and especially interests are another hurdle on Yuschenko's path to prosperity. It is hard to expect that EU leading countries would be happy to allow easy access to their markets. Among others, aircraft and steel industries are at the center of attention. European Commission has already stated that Ukraine's desire to join the EU may be premature.

Although Fitch has upgraded sovereign credit rating of Ukraine and investment companies are already starting to feel increased interest in Ukraine's assets, this interest can abate with time when investors take enough time to estimate real value of these assets, the risks and their gains compared to other emerging markets. To some extent the euphoria that dominated on the streets of Kiev in the end of 2004 has been transferred to foreign investors who often buy without sufficient knowledge.

Without a doubt, Yuschenko wants to improve the lives of many in his country. And, there is no question about his determination to lead Ukraine into the EU with its market of millions. But that progress may be slow in part because of the EU appears to be in no rush to help Ukraine realize her aspirations. It also depends greatly on two other players; both oppositional. Russia and the factions favoring strong ties to the largest remnant of the Soviet Union, may place even more obstacles before Yuschenko.

Now that the new and young government is in place, the eyes of the participants and the spectators of the revolution are on the new regime. The experience of the early 90's, when high hopes were pinned on Ukraine's independence, makes most people cautious. Though, you can see more smiling faces on the streets of Kiev today than just a few months ago. From my perspective, the main lesson of the December events is that the people have finally understood that no one has the right to ignore their right of choice. If this government does not meet their expectations, the people will not allow themsevles to be fooled any more.

Vadym Slobodyanyuk is a 2001 graduate of the Masters of Science in International Economics program at Suffolk University. He is co-author with Jonathan Haughton of BHI's State Competitiveness Report 2001. *A consultant to BHI, Slobodyanyuk writes from the Darnytskyy district of Kiev, Ukraine.* ❖

Choice for everyone! Free minds, free markets...free books?

Choice: The Best of Reason

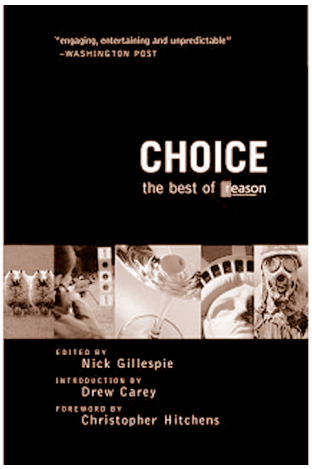
Nick Gillespie, Editor, Ben Bella Books, 2004, 320 pages. Reviewed by Carina Cilluffo

Bookmark

When I discovered in my e-mail an offer of a press copy of *Choice*, the new anthology from *Reason* magazine, I responded initially with laughter. I've had the good fortune to benefit from the confusion surrounding a new media; I am a blogger. Editor-in-Chief Nick Gillespie is reaching out to weblogs for publicity and incidentally providing copies to bloggers like me whose site traffic hardly warrants the expense for postage. Innovative tactics in the face of new opportunity, however, are no surprise from the purveyors of a political magazine remarkable for its originality. *Choice* celebrates the creative power of competitive markets and independent thinking and its marketing strategy reflects this conviction that it is always worth trying new things.

Its contributors offer a fiscally conservative and socially liberal point of view which, rather less paradoxically than it sounds, recalls the motto often used to summarize libertarianism: "We're pro-choice on everything." It may not be readily apparent to those who believe that the Democratic or Republican parties assume their policy stances from coherent principles, but social freedoms and economic freedoms, *Reason* argues, are inextricably linked.

Choice's thirty pieces span more than a decade of controversial issues and figures from the limits of intellectual property rights to Martha Stewart to the funniest Dave Barry interview in print. In addition to the libertarian perspective offered in each article, there is an element present in *Reason's* collection which is oddly unfamiliar to the reader of political journalism: ground-up argumentation. With no broad partisan audience, *Reason* has never had the luxury of assuming agreement from anyone. In an introduction by journalist Christopher Hitchens, the noted radical praises a volume containing an article by former *Reason* editor and current *New York Times* "Economic Scene" columnist Virginia Postrel on the post-socialist political landscape. The tradition of integrity and rigor that Hitchens appreciates in *Reason's* writing continues to demand the serious attention of even those who often find themselves at odds with its conclusions.



Reason prides itself on this unique appeal, citing such unlikely fans as conservative radio host Rush Limbaugh and ACLU president Nadine Strossen. Accepting that readers will have various ideas of what constitutes a political good, stories tend to include both an economic and moral angle. The result hits opponents where it hurts: for example, rather than emphasizing the humanitarian justifications for liberalizing immigration policy, Glenn Garvin counters familiar claims that immigration is a drain on the economy. Similarly, Charles Paul Freund's "In Praise of Vulgarity" defends the trend of globalization, not by citing its potential for wealth creation, but by providing examples of its tremendous power to challenge social restraints and empower the oppressed.

continued on page 8

BHI Survey

continued from page 2

Seventy-six percent (76%) believe the state should be actively involved in preserving manufacturing jobs with tax incentives if necessary. Only 17% opposed the idea. Only 32% support tax breaks for both biotech and manufacturing.

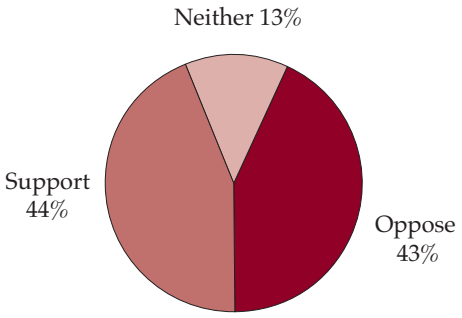
Eighty-seven percent (87%) of respondents overwhelming support a measure to cap medical malpractice jury awards, one of the largest majorities received for any of the policy questions.

Fifty-three percent (53%) favor a proposal to build wind turbines on Nantucket Sound while only 24% voiced opposition. Thirteen percent (13%) expressed no opinion.

As with previous findings, respondents continued to demonstrate support for local government even though they favor abolishing a source of revenue to localities, the excise tax. Sixty-six percent (66%) opposed cutting local aid to cities and towns and only 17% favored cutting local aid with 17% holding no opinion. Fifty-three percent (53%) of respondents expressed confidence in Governor Romney's performance and opposed cutting state aid to local cities and towns.

Those who bemoan the decline of printed newspapers as a source of information may take some solace in the findings of the BHI survey. The survey indicates that picking up the newspaper appears to be the preferred method of obtaining information among fiscal conservatives in Massachusetts. Sixty-five percent (65%) disagreed when asked whether they agreed or disagreed with the following statement: "I get more of my news from the Internet than from newspapers." Whether these respondents recycle their newspapers is another matter.

To what extent would you support or oppose a proposal requiring employers to provide health insurance or pay into a funding pool?



BHI State of the Household Survey 2005

In Point of Fact

Tax discrimination taken to a new level

Siouxlanders are intrigued by a new proposal floated before the Iowa Senate that Iowans under 30 would no longer pay state income taxes. At a time of a "brain drain" in Iowa, Senate Republicans see the proposal as a way to keep young people from moving out of the Hawkeye state. They created the plan as a counter to Gov. Tom Vilsack's approach of multi-million dollar government programs to fund quality-of-life cultural attractions and business incentives.
"Siouxlanders intrigued by no state tax," Bret Hayworth, *Sioux City Journal*, January 26, 2005.

The latest wrinkle: BO-TAX

Nip, tuck and ... tax? Lawmakers trying to plump up the bottom line are considering a "vanity tax" on cosmetic surgery and Botox injections in Washington, Illinois and other states. Plastic surgeons and their patients say the idea is just plain ugly. "It makes no sense. Where does it stop — massages, facials, teeth cleanings?" asked Karen Wakefield, 51, who has had a nose job, dermabrasion, liposuction, tummy tuck and breast lift — plus a little Botox here and there. "Even having a baby is elective surgery," added Wakefield, an event planner in Woodinville. "Why not tax that, too?" "Lawmakers Look to Tax Cosmetic Surgery," Rebecca Cook, Associated Press, January 27, 2005.

They used to think of the defense industry in Massachusetts in the same way

Members of Massachusetts' all Democratic congressional delegation are lining up against Bush administration plans to overhaul Social Security – putting them directly at odds with the state's massive money managers. They expressed over-diluting a safety net that many of their constituents rely on. "Some things are more important than regional business interests," said Rep. Michael Capuano, whose district includes the Boston Financial District.
"Mass. Delegation pans private accounts," Edward Mason, *Boston Business Journal*, January 28, 2005.

A market for everything — even in Europe!

Europe's first exchange to trade in carbon emissions is underway, coinciding with the new European rules forcing companies to drastically reduce the amount of carbon in the atmosphere. The launch of the European Climate Exchange follows that of its U.S. counterpart, the Chicago Climate Exchange, which started business in 2003. "New Carbon-Emissions Market Can Turn Pollutants into Profit, Corey Boles, *Wall Street Journal*, December 1, 2004.

BHI economists discuss tax policy in Ghana

BHI executive director Dr. David G. Tuerck (l) and Senior Economist Dr. Jonathan Haughton (r) travelled to Ghana in January to work with the University of Cape Coast (UCC) to help increase them the managerial and policy-making ability of Sekondi-Takoradi, a sister city of Boston. They also met with Nana Osahene Katekyi Busumakura III, paramount chief of the Takoradi area (c). Both economists also traveled to Accra where they discussed tax and regional policy with Senior Minister Joseph Mensah and also with Deputy Minister of Finance Kwaku Agyemang Manu, in addition to having a long and fruitful meeting with the leaders of the Institute for Economic Affairs, a local think tank.

Reason's choice

continued from page 7

Let it not be said, however, that the fight for liberty must be devoid of fun. The often-dry wit of *Reason's* regular contributors is offset by interviews with the occasionally off-color comedian Drew Carey and humor columnist Dave Barry. Barry would probably insist that the governmental excesses he ridicules are funny enough on their own, but the Beltway just doesn't see the hilarity of hearings held against hate or the strategic helium reserve.

Choice is certainly not a hodgepodge of liberal and conservative views or articles that could have been pulled half from *National Review* and half from *American Prospect*. If the political spectrum were truly one-dimensional that might be the case, but one of *Reason's* most attractive points is that it highlights the second dimension of politics. *Reason* allies itself with the "Left" or the "Right" only when their positions fall favorably on the other axis, away from governmental control and toward choice. Those with strong libertarian sympathies, however, will gain no less from this book and its unconventional thinking. Whether defending biotechnology or attacking the War on Drugs, *Reason* attacks issues with an eye to economics, an emphasis on civil liberties and a keen attention to what has not been tried before. Whatever your disposition, *Choice* has an argument you have not heard before.

BHI intern Carina Cilluffo studies Biological Anthropology at Boston University and maintains the weblog An Inclination to Criticize *(www.inclinedtocriticize.blogdrive.com).*

Beacon Hill Institute
Suffolk University
8 Ashburton Place
Boston, MA 02108-2770

NONPROFIT ORGANIZATION
U.S. POSTAGE
PAID
BOSTON MA
PERMIT #18443