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FACTS & OPINIONS

On Public Interest Issues

Quotes

Never stand begging for what you have the power to earn.

– Cervantes

Doubt is not a pleasant condition, but certainty is absurd.

– Voltaire

Idealism increases in direct proportion to one's distance from the problem.

– John Galsworthy

Look to Milton: Open Borders and the Welfare State

Robert Rector

A decade ago, Nobel prize-winning economist Milton Friedman admonished the *Wall Street Journal* for its idée fixe on open-border immigration policy. "It's just obvious you can't have free immigration and a welfare state," he warned. This remark adds insight to the current debate over immigration in the U.S. Senate.

To be fully understood, Friedman's comment should be viewed as applying not merely to means-tested welfare programs such as food stamps, Medicaid, and public housing, but to the entire redistributive transfer state. In the "transfer state," government taxes the upper middle class and shifts some $1.5 trillion in economic resources to lower-income groups through a vast variety of benefits and subsidies. Across the globe, this sort of economic redistribution is the largest, if not the predominant, function of government in advance societies.

The transfer state redistributes funds from those with high-skill and high-income levels to those with lower skill levels. Low-skill immigrants become natural recipients in this process. On average, low-skill immigrant families receive $30,160 per year in government benefits and services while paying $10,573 in taxes, creating a net fiscal deficit of $19,587 that has to be paid by higher-income taxpayers.

There is a rough one-to-one fiscal balance between low-skill immigrant families and upper-middle-class families. It takes the entire net tax payments (taxes paid minus benefits received) of one college-educated family to pay for the net benefits received by one low-skill immigrant family. Even Julian Simon, the godfather of open-border advocates, acknowledged that imposing such a burden on taxpayers was unreasonable, stating, "immigrants who would be a direct

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President
Dr. Don Racheter

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Focus on Iowa Wesleyan College

Iowa Wesleyan College Life Trustee Stanley M. Howe had the distinction of receiving the Stanley S. Kresge Award on 4 May. In 2005 Howe, who has served on the IWC Board of Trustees for more than forty years and currently serves on the Board of Trustees of the Public Interest Institute, issued a $15 million challenge grant to the college, potentially the largest contribution in IWC history. The Kresge is a national award bestowed for extraordinary commitment to the Methodist Church and Methodist-related education. The honor includes a $10,000 scholarship to IWC in the recipient's name.

On 19 April, IWC named Valerie Unkrich the 2007 Chadwick Teacher of the Year. Unkrich, an Employee of IWC since 1993, is an Assistant Professor of Physical Education and has a Master's Degree in Health and P.E. Joe Bonebreak, a business instructor, was honored as part-time Instructor of the Year.

On 4 May, Iowa Wesleyan Trustee A. Lowell Doud announced to a gathering of 300 guests at the Ruble Arena the beginning of an effort to raise $35 million for IWC. "Our goal," said IWC President William Johnston, "is to accelerate our ascent as a highly-regarded Midwestern liberal arts college and to enhance our reputation for providing an outstanding personalized experience as well as an exceptional educational environment."

What's New at Public Interest Institute?

Jon Miltimore

In May, Public Interest Institute was pleased to announce the addition of Deborah Thornton to its staff. Deb holds an M.B.A. from the University of Maryland, and a B.A. from Indiana University, where she majored in Journalism and Political Science. Deb brings an abundance of experience from both the public and private sector.

She was an appointee at the U.S. Department of Labor under President George H.W. Bush and has worked on numerous political campaigns, including those of current U.S. Senate Minority Leader Mitch McConnell (KY) and current U.S. Sen. Richard Lugar (IN). Additionally, she worked as an aide to New Mexico Governor Gary Johnson, and with Indiana Governor Mitch Daniels when he was Executive Director of the National Republican Senatorial Committee. Deb also owned a small business dealing primarily in retail, Native American, international, and government consulting and was a Senior Technology Transfer Specialist at Los Alamos National Laboratory in New Mexico, where she helped facilitate product licensing and patenting.

On 30, June, Institute staff travelled to Des Moines to participate in a Presidential Forum co-hosted by the Iowa Christian Alliance and Iowans for Tax Relief. Guests included such Presidential hopefuls as former Governors Mike Huckabee (AR),

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Iowa Receives Passing Grade on Eminent Domain Reform

Amy Frantz

The U.S. Supreme Court's 2005 decision in the *Kelo v. City of New London* case ruled that the city could take land from a private owner, through eminent domain, and then give that land to a private developer – if the city believes that act will provide an economic development benefit. The Court's majority, however, stated that their opinion did not preclude a state from passing legislation to place restrictions on the use of eminent domain. Since that time forty-one states, including Iowa, have passed new laws to reform the use of eminent domain.

The Castle Coalition is a project of the Institute for Justice, whose purpose is to teach home owners and owners of small businesses how to protect their property from being taken through an abuse of eminent domain powers by governments and the developers working with them. In light of the actions taken by so many states, the Castle Coalition has just issued a study, *50 State Report Card: Tracking Eminent Domain Reform Legislation since Kelo*.

In the report card, the Castle Coalition has "evaluated the quality and strength of reforms that have passed in the states, both so that Legislators can know what is left to do and so that citizens can find out if they are really protected from eminent domain abuse."[1] The higher the grade in the Castle Coalition's report card, the harder it is for the government to take a person's property and give it to a private developer or other private owner.

Iowa received a B- from the Castle Coalition's report card based on the eminent domain reform adopted in 2006. That year, the Iowa Legislature passed an eminent domain reform bill by large margins – a vote of 89-5 in the House and 43-6 in the Senate. Then-Governor Tom Vilsack vetoed the bill; however, the Legislature met in a special session to override the veto, allowing the bill to become law despite Vilsack's objections that the bill would "provide too much protection for individual rights," states the Castle Coalition.[2]

The report card goes on to say about Iowa's reforms, "while not perfect, [the law] represents an important improvement in Iowa's protection of property rights. The new law changes how blight designations are used and requires a property-by-property assessment….The new law also requires the government to prove blight by clear and convincing evidence."[3] Iowa was one of three states to receive a B-. Eighteen states received a better grade; 29 received a lower grade.

"Eminent domain laws should not be used to allow the government to take someone's home, just because a shopping mall on the same property would provide more tax revenue to the city or state."

Eminent domain is still needed by the government to be able to obtain land for public uses, such as the building of a necessary road, but the taking of land should be accompanied by just compensation.

However, eminent domain laws should not be used to allow the government to take someone's home, just because a shopping mall on the same property would provide more tax revenue to the city or state. Iowa's eminent domain reform laws are good, but there are areas in which our laws could still improve.

1. Castle Coalition, *50 State Report Card: Tracking Eminent Domain Reform Legislation since* Kelo, June 2006, <www.CastleCoalition.org/publications/report_card> (June 8, 2007).
2. Ibid.
3. Ibid.

Amy Frantz is Senior Research Analyst at Public Interest Institute.

Have you renewed your membership with Public Interest Institute?

Look to Milton

Robert Rector

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economic burden upon citizens through the public coffers should have no claim to be admitted" into the nation.

There is also a political dimension to the transfer state. Elections in modern societies are, to a considerable degree, referenda on the magnitude of future income redistribution. An immigration policy which grants citizenship to vast numbers of low-skill, low-income immigrants not only creates new beneficiaries for government transfers, but new voters likely to support even greater transfers in the future.

The grant of citizenship is a transfer of political power. Access to the U.S. ballot box also provides access to the American taxpayer's bank account. This is particularly problematic with regard to low-skill immigrants. Within an active redistributionist state, as Friedman understood, unlimited immigration can threaten limited government.

Many libertarians respond to this dilemma by asserting that the real problem is not open borders but the welfare state itself. The answer: dismantle the welfare state. The libertarian Cato Institute pursues a variant of this policy under the slogan, "build a wall around the welfare state, not around the nation." Borders should be open, but immigrants should be barred from accessing welfare and other benefits.

But in practice, pursuit of these dual libertarian goals of opening borders and ending the redistributionist welfare state often leads to contradictions. The current Senate "comprehensive" immigration-reform bill, supported by the Cato Institute, actively demolishes existing walls between illegal immigrants and government benefits, granting some 12 million illegal immigrants (60 percent of whom are high-school dropouts) access to Social Security, Medicare, and, over time, to 60 federal means-tested welfare programs.

It also substantially increases the future flow of low-skill immigrants and gives them access to welfare and transfer programs. Far from building a "wall around welfare," this legislation levels existing walls, builds a highway to Fort Knox, and shovels billions in taxpayer funds into the pockets of immigrants who entered this country illegally.

In a recent debate with Dan Griswold of the Cato Institute, I pointed out this paradox. Griswold replied that the key was to grant amnesty and open borders now and work on "building a wall around welfare" at some point in the future. The weakness of this response should concern all those interested in limiting the size of government.

While most open-border libertarians proclaim a desire to dismantle both borders and the welfare state, in practice what they offer is open borders today and a vague (and almost certainly illusory) promise to end the welfare state in the indefinite future. As Milton Friedman understood, open-border enthusiasts have the sequence wrong: Opening borders with the redistributionist state still intact will result in a larger and more confiscatory government. In response to libertarians who propose to open borders and dismantle the welfare state, practical conservatives should answer: "Go ahead. Dismantle the welfare state. As soon as you've got that finished, let us know, and then we'll talk about open borders."

Open-border enthusiasts sometimes claim that the 1996 welfare reform defanged the welfare system, eliminating the costs that low-skill immigrants impose on taxpayers. As one of the architects of that reform, I would warn that this view shows a serious lack of understanding of the limited scope of the 1996 welfare law, and, more importantly, a lack of appreciation of the magnitude of the redistributionist state.

Sen. Ted Kennedy understands that a steady stream of low-skill immigrants will help him build a much larger, tax-fueled government. It is a pity that so many foes of big government fail to appreciate this point.

Robert Rector is senior research fellow at the Heritage Foundation.

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Is it an Amnesty?

Jon Miltimore

Recent immigration debate has focused on a central question: Is the Kennedy-Kyl-Bush immigration bill (currently withdrawn and perhaps dead for good) an amnesty? Because Americans overwhelmingly oppose granting amnesty to illegal immigrants, comprehensive immigration reform proponents and opponents have been engaged in an inane semantic skirmish. Liberals, the White House, and editors of the *Wall Street Journal* insist the bill is "not an amnesty." Opponents of the bill say it is. So who is right?

It is symptomatic of our current political state that analysis of such linguistic quibbles is necessary. But because words are the expression of the most potent of all things — ideas — such an examination is not *prima-facie* an exercise of futility.

The etymological root of the word "amnesty" comes from the Greek words amnēstia and amnēstos, meaning, literally, "forgetfulness" and "forgotten." Webster's Dictionary describes amnesty as "the act of an authority (as a government) by which pardon is granted to a large group of individuals."

So, definitionally speaking, is the Senate immigration bill an "amnesty?" The answer is yes. The Senate bill is what can properly be defined as a "conditional amnesty." Indeed, most reprieves we describe as "amnesty" are this type; a pre-condition must be met before said crime is "amnēstos." Consider the American Civil War. Citizens of the former Confederate States of America were granted amnesty, but on condition of signing a statement of loyalty to the Union. It was an amnesty with a prerequisite, but still an amnesty.

Proponents of the Kennedy-Kyl bill have insisted that because conditions are attached to its amnesty, the bill does not in fact grant amnesty to 12-20 million illegal immigrants. Under this logic, a bill requiring illegal immigrants to pay $1.00 before receiving citizenship would not be an amnesty. One can debate whether or not the conditions of an amnesty are too stringent or too lenient, but to deny altogether that such an act is amnesty is intellectually dishonest.

So yes, the temporarily killed Senate bill contains an amnesty for illegal immigrants. Will this preclude the passage of this Kyl-Kennedy or a similar immigration compromise? This seems to be the case.

Although polls have shown that a majority of Americans support eventually granting illegal immigrants some form of legal status, it is apparent they no longer trust Washington to follow through on its tough border-security talk. The people cannot be blamed for this. After two decades of failed immigration policy, Americans were promised, with the passage of the 1986 Simpson-Mazzoli Act, which included amnesty for 3,000,000 illegal aliens, that Washington was finally taking illegal immigration seriously.

Twenty-one years later Americans know better and now they have spoken: no more amnesties until the border is secured.

Jon Miltimore is a Research Analyst at Public Interest Institute.

Facts & Opinions

Question of the Quarter:

Will increased government regulation improve healthcare in the United States?

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Contact Kathleen Calongne, Assistant Director, kathleen@americandreamcoalition.org or Randal O'Toole, Director, randal@americandreamcoalition.org for more information.

Another Supply-Side Revolution is Needed

Josh Hendrickson

With health expenditures rising relative to GDP, most pundits and health economists believe that the U.S. health care system needs to be reformed. Those who favor reform can be separated into two groups. The first group believes that due to the insulation from premiums and the medical expenses themselves, individuals consume more health care than they would if they paid for these services out-of-pocket. Economists refer to this phenomenon as moral hazard. The second group believes that without more government intervention, those who are poor or sick will not be able to afford insurance. While the former is certainly important, there is little evidence to support the latter. Additionally, effective reform must also address the supply-side.

There is certainly reason to believe that moral hazard exists. While individuals may not go to the doctor simply because they have insurance, they will likely consume excess care on the margin. For example, suppose an individual goes to the emergency room for severe stomach pain. The doctor suspects that the patient may have appendicitis and administers a series of tests. After inconclusive results, the doctor tells the patient that it is unlikely that they have appendicitis, but that a CAT scan could completely rule it out. If the patient is insulated from the cost, they will surely agree to the scan regardless of the fact that it is not likely to change their diagnosis. The problem with spending on the margin is that it often involves spending on expensive procedures that offer the patient little benefit. Arnold Kling refers to this as premium medicine.

The second group believes that the biggest problem facing the U.S. health care system is that the sick and the poor cannot afford insurance. These individuals argue that more government intervention (and possibly a single-payer system) is necessary to provide the poor and the sick insurance. However, this is simply not true. Lisa Dubay, John Holahan, and Allison Cook found that 25% of the uninsured were eligible for public coverage, but were not enrolled. They also found that an additional 20% of the uninsured live in households that could afford insurance. Similarly, Kate Bundorf and Mark Pauly estimated that, depending on the definition of affordability, 25% to 75% of the uninsured could afford insurance.

While these findings are certainly important when designing effective reform, what is missing from the debate is a discussion of supply-side reforms. In *The American Economic Review* in 1963, Noble Prize-winning economist Kenneth Arrow tackled the idea of uncertainty and medical care. Included in the paper was a section on the unique aspect of the market for medical services. Especially prescient were Arrow's thoughts on the supply-side.

The supply-side is riddled with inefficiencies. For example, the supply of doctors is restricted by licensing and medical school enrollments. Physicians also often act to exclude substitutes such as physician assistants and nurse practitioners. What's more, doctors effectively act as a collective monopoly because of the lack of price competition within their ranks. These restrictions on supply lead to higher prices for patients and higher incomes for doctors. This is especially inefficient considering that patients often lack price information until they receive their statements of benefits in the mail. Although the insurance system was quite different in 1963, many of the inefficiencies of the market are consistent with what is seen today.

Arrow's article also studied insurance and, using a mathematical model, stated that the ideal form was full coverage above some deductible. He also stated that if insurers were risk averse, which undoubtedly they are, they would also require a co-payment above the deductible. While some may condemn Arrow's theory as outdated, they would be erroneous to do so. Requiring consumers to pay a deductible would give individuals the incentive to obtain pricing information and would thus cause doctors to be more forthright with their billing methods. Additionally, a market with consumers who no longer lack price information will begin switching to physicians that they

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perceive as offering better quality service and thus may induce some level of price competition among doctors. This type of policy is consistent with that advocated by demand-side reformers.

Unfortunately, the battle for price competition will also require additional reform. On the supply-side, economist Robin Hanson suggests "replacing doctors with cheaper alternatives." This is quite possibly the best way to induce price competition without reducing the patients' quality of treatment. Hanson justifies this by highlighting a study in the Journal of the American Medical Association that finds that there is no difference in health status among patients receiving care from a nurse practitioner and a physician. Along the same lines, it may also be prudent to re-examine the licensing restrictions on physicians and the medical school admissions policies.

So as policymakers take a step back and design some type of reform, they should keep in mind the lessons learned from Arnold Kling, Kenneth Arrow, and Robin Hanson. The United States health care system does not need a major overhaul. The system merely needs to reduce inefficiencies and realign incentives on the demand-side and the supply-side.

Josh Henrickson teaches economics at Wayne State University and blogs at "The Everyday Economist."

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What's New at Public Interest Institute?

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Mitt Romney (MA), and Tommy Thompson (WI), U.S. Senator Sam Brownback (KS), and U.S. Representatives Duncan Hunter (CA) and Tom Tancredo (CO).

Finally, Institute President Don Racheter (PhD.) completed a busy quarter of traveling. Trips included a visit to Hawaii in May for the Pacific Rim Policy Conference and a June sojourn to Washington D.C. for the National Taxpayers Conference, co-sponsored by the National Taxpayers Union Foundation and Iowans for Tax Relief.

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