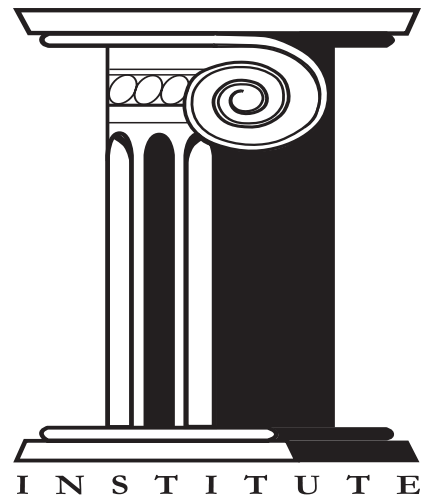


LIMITS



On Power and the Use of Coercion

Some Governors Are Offering Big Ideas for Reform

by Patrick Gleason

More than 40 state budgets are in deficit or projected to be there in the coming fiscal year, and in some states the dire budget situations are creating pressure on lawmakers to increase efficiency and reduce government waste.

Governors in several states are putting together proposals for policy innovations. Several prominent Governors have already unveiled major reforms for the 2009 legislative session.

South Carolina Gov. Mark Sanford (R) has introduced one of the most sweeping tax-reform packages to come out of the states in recent history.

Sanford's package, aimed at spurring job creation and capital investment, involves a three-pronged strategy emphasizing

tax cuts for individuals and employers. The key provisions include an optional flat income tax and full indexing of income tax brackets. Under Sanford's proposal, South Carolina taxpayers could opt out of the state's graduated income tax system and instead pay an alternative flat income tax of 3.65 percent. The state's top income tax rate is currently 7 percent.

Sanford's reform also would phase out the state's corporate income tax over a decade and fully index income-tax brackets for inflation.

"There has never been a more important time for this discussion about where we want to go as a state with respect to growing our economy," Sanford said upon unveiling his proposal in December.

Instead of focusing only on enticing new companies into the state, Sanford believes his plan

will also reward and encourage longstanding South Carolina employers to stay in the state and expand their operations.

Facing a \$6.7 billion annual Medicaid program and costs consuming ever-larger portions of the budget, Louisiana Gov. Bobby Jindal (R) has introduced a plan to overhaul the way Medicaid operates in Cajun Country.

To control costs and improve service, Jindal has unveiled a proposal to move the lion's share of Louisiana's Medicaid enrollees, representing about a quarter of the state's population, from traditional "fee for service plans" to private managed care plans.

A similar reform was passed by the Republican Congress in 1995 but was vetoed by President Clinton. Jindal's plan would require approval from

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What's New at PII?

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Another Assault Upon the Remnants of Federalism

by Marion Edwyn Harrison, Esq.

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Dr. Don Racheter,

President

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The Founding Fathers, most of our ancestors, and a large if unquantifiable chunk of contemporary informed Americans believed or believe in federalism as the optimum balance for the functioning of a free and ordered United States of America as distinguished from an overweening and ubiquitous Federal Government. The noun federalism has varied definitions. The simplest may be that the States of the Union have basic rights, including the right of individuality and of limited influence, much less dominance, by "Washington" — that is, by the Federal Government.

Amendment X to the Constitution, ratified December 15, 1791, states in full: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." Not the clearest statement of a dichotomy perhaps but sufficient for the reader to understand that if the Constitution does not confer directly, or at times somewhat impliedly, a function, power, or right upon the Federal Government the Feds don't possess it.

The biggest enemy of federalism derives from the revenues of the Federal income tax and the vast expenditures of money, including funny money (presently a national

debt approaching \$13 trillion), which Washington consumes, dispenses, and dissipates. A century or less ago who, except maybe some talented political prophet, would have envisioned a United States Department of Education, as though a Federal bureaucracy, full of funds, were supposed to be usurping, guiding, dominating, traditionally State public (and, more and more, private) education.

Incursions upon, and usurpations of, traditional State and local functions are ubiquitous. A new and rather different manifestation is emerging — abolition of the Electoral College. One Jonathan Soros, of Soros Fund Management, is among the proponents. The very name "Soros" tells one the cause is not conservative.

Numerous illusory arguments are propounded against the constitutionally created Electoral College. One such argument, perhaps superficially the most compelling, is that the two 2008 major parties' candidates expended some 98% of their television costs and campaign events in fifteen States. Assuming arguendo the figure is not far off, so what? Skilled lawyers, salesmen, and all other advocates devote their resources to those arguments and subjects which are the most likely to persuade and to the audiences

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Some Ideas for Tax Reform

by John Hendrickson

The current economic recession brings an opportune time to discuss serious tax reform. In order to revive the economy, the best policy that the federal government can engage in is tax reform. Only stimulating the private sector, that is, keeping money in the hands of those who create jobs, will result in a fast recovery and creating jobs. Chris Edwards, who is Tax Policy Director at the CATO Institute, wrote that “the federal government extracts about \$2.8 trillion in federal taxes from families and businesses each year, which imposes a huge economic cost.”¹ In addition, Edwards references that “today, federal taxes account for about 18 percent of GDP, and federal tax laws and regulations span 67,506 pages...”² As Congress considers legislation to handle the current economic crisis, they should focus on serious tax reform. Tax reform ideas such as the National Sales Tax and the Flat Tax deserve a fair discussion.

Kristina Rasmussen, Director of Government Affairs at National Taxpayers Union, recently wrote, “Ten Tax-Hike Threats in the 111th Congress,” which appeared in *Human Events*. “With

the arrival of President Barack Obama at 1600 Pennsylvania Avenue and strengthened Democrat majorities in the House and Senate, taxpayers will soon be facing a sea — some would say a tidal wave — of changes in tax policy,” wrote Rasmussen.³

Some of the possible tax-hikes include:

- Repeal/expiration of the 2001 and 2003 tax cuts.
- Payroll tax increases.
- Smaller Alternative Minimum Tax patches.
- Windfall profits energy taxes.
- Increase in the Federal excise tax on cigarettes and gasoline.
- Repeal of tax protections for retirement savings.⁴

In addition to the possible tax increases that may occur in the 111th Congress, taxpayers will have to be ever watchful on the rise of government spending, especially with the passage of an \$800 billion economic stimulus bill. The February 16, 2009 cover story of *Newsweek* may have set the agenda for the new administration. The *Newsweek* cover story read: “We are all socialists now: The perils and promise of the New Era of Big Government.”⁵

Americans should not be happy with the current move toward European style socialism and continual drift away from constitutional government. Achieving tax reform would be one policy option to reverse the

current course. The CATO Institute has recently released the 7th edition of the *CATO Handbook for Policymakers*, and Chris Edwards has offered some key ideas for reforming the federal tax code.

Some of the reforms offered include:

- Extend the Bush tax cuts of 2001 and 2003.
- Simplify the individual income tax by installing rates of 15 and 25 percent.
- Reduce the federal corporate tax rate from 35 percent to 15 percent.
- Replace the income tax with a consumption-based flat tax at 15 percent.
- Repeal the individual and corporate alternative minimum taxes.
- Repeal the estate tax.⁶

The tax reform ideas offered by the CATO Institute offer a serious solution to a tax code that needs to be revised to meet the current economic challenges. A true successful economic policy must consist of following the constitutional limited government policies of cutting taxes, reducing government, and reducing the deficit.⁷

Employees of Public Interest Institute are available for speaking engagements. If interested, contact PII for more information.

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Some Governors

by Patrick Gleason

(continued from page 1)

both the state legislature and the federal government.

Indiana Gov. Mitch Daniels (R) is not resting on the laurels of the property-tax reform the state successfully passed last year. He has brought forth another bold reform seeking to return money to taxpayers.

Under Daniels' proposed Automatic Taxpayer Refund, money would be returned to taxpayers when state revenue exceeds a set level. When revenues are 10 percent greater than the amount appropriated for the following year's budget, the automatic refund would be triggered.

Daniels said his proposal is guided by the principle that the government should "collect only what it needs to provide essential services, to protect itself against a downturn, and to have an adequate reserve. Above that, the money stays with the taxpayer to be spent on family needs and to be reinvested in a growing economy."

Indiana taxpayers worked until July 10 last year, well over half the year, to pay the costs of state, local, and federal government, according to Americans for Tax Reform's annual Cost of Government Day report. That

refers to the date when the average worker has earned enough gross income to pay off his or her share of that year's spending and regulatory burdens imposed by all levels of government.

If Daniels' plan succeeds in putting money back into taxpayers' hands, future Cost of Government Days in the Hoosier State could come earlier in the year.

One of the newer policy innovations already proven to be a winner, both in terms of policy and politics, are initiatives to put state government expenditures and contracts online and in a searchable format.

Sandra Fabry, Executive Director of the Washington, D.C., based Center for Fiscal Accountability, is convinced this effort will continue to sweep the nation. Here too, entrepreneurial Governors are leading the way, she notes.

It was a Governor, Rick Perry (R) of Texas, who kicked off the transparency movement at the state level in 2005 with an executive order requiring school districts to post their expenditures online.

"The transparency movement is only going to continue to grow, because it is one of the simplest yet most powerful concepts. Until recently, we've only been able to scratch the surface in terms of identifying fraud, waste, and abuse in government finance," said Fabry.

Fabry and other policy experts believe increased trans-

parency is the ultimate reform because it provides tools to hold government accountable and identify potential savings and efficiencies.

"Let's face it, given the state of our economy, it is imperative that lawmakers find these savings and efficiencies," said Fabry.

In tough economic times such as the present, companies are more open to rethinking the fundamental way they do business, Fabry notes. That, analysts say, means there's good reason to believe voters, lawmakers, and economic stakeholders also will be open to rethinking the status quo and considering reforms.

Policy innovators in gubernatorial mansions and state capitols across the country are hoping to capitalize on this opportunity to garner support for real reforms.

Patrick Gleason serves as State Affairs Manager for Americans for Tax Reform.

This article appeared in the March 2009 edition of The Heartland Institute's Budget & Tax News and is reprinted with permission.

Visit our new websites:

www.IowaTransparency.org

and

www.Iowavotes.org

**Some Ideas for Tax
Reform
by John Hendrickson
(continued from page 3)**

Endnotes:

¹Chris Edwards, "Federal Tax Reform," in *Cato Handbook for Policymakers*, 7th ed., Cato Institute, Washington, D.C., 2009, p. 421.

²Ibid.

³Kristina Rasmussen, "Ten Tax-Hike Threats in the 111th Congress," *Human Events*, January 26, 2009, p. 12.

⁴Ibid., pp. 12-13.

⁵Jon Meacham and Evan Thomas, "We are all socialists now," *Newsweek*, February 16, 2009, p. 23.

⁶Edwards, p. 421.

⁷John Hendrickson, "Mellon's Principles of Taxation," Tax Education Foundation, April, 2008, <<http://www.taxeducationfoundation.org/briefs/2008-04.htm>> (February 16, 2009).

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LIMITS

**Question of the
Quarter:**

Do you agree with South Carolina Governor Mark Sanford's tax reform proposal?

Send your thoughts on this issue to us at public.interest.institute@limitedgovernment.org

We may publish some of your ideas in the June 2009 issue of *LIMITS*.

Remember to look for other "Questions of the Quarter" in both *FACTS & OPINIONS & IOWA ECONOMIC SCORECARD*

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Iowa and National Popular Vote: An Interstate Compact that Should be Avoided

by John Hendrickson

A national movement is currently underway in an attempt to abolish the Electoral College. National Popular Vote is a bipartisan organization of Republicans and Democrats that is working to circumvent the Electoral College and replace the system with a national popular vote. The objective is to get state Legislatures in the various states to agree to join an interstate compact agreeing that the respective state will allocate their electoral votes to the presidential candidate who wins the majority of the popular vote nationally. Iowa is currently considering joining the National Popular Vote movement.¹ The Electoral College is one of the most misunderstood aspects of our constitutional system and abandoning it would be a drastic mistake, which would further undermine our constitutional framework designed by our Founders.

The method for electing the President of the United States is outlined in the Constitution in Article II, Section I and in the Twelfth Amendment to the Constitution. When individuals vote for a particular presidential candidate on Election Day they are actually voting for Electors, who will then gather in their respective state capitals and cast their ballots in December for the presidential candidate

who received the majority of the vote in their state. The ballots are then counted before a joint session of Congress in early January and the candidate who wins at least two-hundred and seventy votes wins the presidency. Depending upon the state, electors are selected by political party conventions, primaries, or committees, and Electors pledge themselves to vote for their respective party's candidate. Half of the states require electors to support their candidate by law.²

The number of electoral votes for each state is determined by the number of U.S. Representatives and each state's two U.S. Senators. Therefore, when an individual casts a ballot for a presidential candidate, under the Electoral College system, the winner of the majority of votes wins that particular state's slate of electoral votes.

Currently four states, Maryland (10 electoral votes), New Jersey (15 electoral votes), Illinois (21 electoral votes), and Hawaii (4 electoral votes), have already approved legislation that has been signed into law that would commit their electoral votes to the winner of the national popular vote.³ This means that fifty electoral votes already have been committed to the national popular vote

scheme. National Popular Vote reports that twenty-two state legislative chambers have passed legislation in favor of the interstate compact, 1,246 state Legislators have endorsed the legislation, and a national poll of seventy percent of individuals approve of the notion of replacing the Electoral College with a popular vote.⁴

Iowa, and this goes for any state, should refrain from joining the interstate compact. The Electoral College may seem unusual, but if you study its history, the Founding Fathers designed this election system based on our republican government and the concept of federalism. As Tara Ross, who wrote *Enlightened Democracy: The Case for the Electoral College* noted: "The Founders sought a unique solution to two contradictory goals facing the new country: How could they allow the sense of the people to be reflected in the government, yet still protect the minority from the dangers of unreasonable majority rule?"⁵

Federalism was a key component that resulted from the Constitutional Convention of 1787. "As a constitutional principle, federalism is important because it speaks not only to the delineation of authority between the national government and the states, but to the

overarching concept of limited government and the preservation of individual liberty,” noted constitutional scholar Eugene W. Hickok.⁶

Under federalism, power is divided between the federal and state governments. The Founders did not intend to have the federal government treat the various states as mere administrative districts. As Ronald Reagan noted:

The very basis for our freedom is that we are a Federation of Sovereign States. Our Constitution recognizes that certain rights belong to the state and cannot be infringed upon by the National government. This is the guaranty that small states or rural, sparsely populated areas will have a proportionate voice in national affairs.⁷

In addition to federalism, the republican government that the Founders created in Philadelphia in 1787 was not a direct democracy. In *Federalist Paper No. 10*, James Madison outlined the threat of factions and the differences between a republic and a democracy. Proponents of a direct national popular vote argue that the Electoral College does not fulfill the desires of the people. John Samples, Director of the Center for Representative Government at CATO Institute, wrote that the “Founders denied that such consent be reduced to a simple majority or plurality rule.”⁸ “In fact, nothing could be more alien to the spirit of American constitutionalism than equating democracy with

the direct, unrefined will of the people,” noted Samples.⁹

Abolishing or circumventing the Electoral College would reduce the role of the states by forcing presidential elections to focus on large urban areas. Small states, such as Iowa, would not be considered very viable compared to other states with cities with high populations. As Reagan argued:

Those who want to do away with the Electoral College really mean they want the President elected in a national referendum with no reference as to how each state votes.

Thus a half dozen rural states could show a majority for one candidate and be out-voted by one big industrial state opting for his opponent.¹⁰

The Electoral College also forces presidential candidates to build coalitions, and it brings a sense of moderation to national politics. In addition, as John Samples argues, “neither the Senate, nor the Supreme Court, nor the President is elected on the basis of one person, one vote.”¹¹ A question must be asked if it is fair that North Dakota has just as many United States Senators as California or Texas. “Consistency would require that if we abolish the Electoral College, we rid ourselves of the Senate as well. Are we ready to do that?” asked Samples.¹²

The Electoral College system has served the nation well since the Founding and it has proven that it works even during close elections such as

in 1800, 1824, 1877, or even 2000. “Doing away with the Electoral College would breach our fidelity to the spirit of the Constitution, a document expressly written to thwart the excesses of majoritarianism,” argued Samples.¹³ The Electoral College was designed for a purpose and fits into the constitutional framework of our government. Iowa would be wise to reject joining the interstate compact of states who wish to circumvent the Electoral College in favor of a national popular vote.

Endnotes:

¹For the legislation, please refer to the Iowa General Assembly House Study Bill 98 and Senate Study Bill 1128.

²Jack C. Plano and Milton Greenberg, *The American Political Dictionary*, 11th edition, Harcourt College Publishers, Orlando, Florida, 2002, p. 83. Both Maine and Nebraska have a proportional electoral system.

³National Popular Vote, “One-sixth of the way to 270 Electoral Votes,” <<http://www.nationalpopularvote.com/pages/misc/onesixth.php>> (February 13, 2009).

⁴National Popular Vote, <<http://www.nationalpopularvote.com>> (February 13, 2009).

⁵Tara Ross, *The Electoral College: Enlightened Democracy*, The Heritage Foundation, Legal Memorandum No. 15, November 1, 2004.

⁶Eugene W. Hickok, *Why States? The Challenge of Federalism*, The Heritage Foundation, Washington, D.C., 2007, p. 3.

⁷Ronald Reagan, quoted in Tara Ross’s, *Enlightened Democracy: The Case for the Electoral College*, World Ahead Publishing, Los Angeles, 2004, p. 75.

⁸John Samples, “In Defense of the Electoral College,” Cato Institute, November 10, 2000, <<http://www.cato.org>> (February 16, 2009).

⁹Ibid.

¹⁰Ronald Reagan quoted in *Enlightened Democracy*, p. 75.

¹¹Samples.

¹²Ibid.

¹³Ibid.

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**Another Assault Upon
the Remnants of Federalism**

**By Marion Edwyn Harrison,
Esq.**

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which are most likely to be persuaded.

The President received about 53% of the popular vote, about 68% of the electoral vote. Would the basic result be otherwise if every vote were counted in a nationwide tally? Of course not.

The entire federalist concept and system, deriving from the Constitution, is designed to further federalism — that is, a measure of individuality and self-government of each State.

This means competition between States, independence (except as to specifically enumerated subjects, such as national defense, foreign policy, to a point interstate commerce) and reasonably limited Federal Government interference and regulation. The entire rationale of two United States Senators from each State, whether the smallest in population is one-fifty-third the largest or the largest fifty-three times the smallest, is to facilitate the values of federalism.

The National Popular Vote Compact and the Soroses of the movement surely seek a dilution of federalism and an increase in the power and regulatory control of the Federal Government. Their advocacy of abolition of the Electoral College is a clever cover. The cause may be

gaining in the liberal States of Hawaii, Illinois, Maryland, and New Jersey and possibly others. One must never underestimate the ingenuity of those who promote liberal causes.

Marion Edwyn Harrison is President of, and Counsel to, the Free Congress Foundation.

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