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Regulation Cuts Must Be Part of Serious Reform

BY WAYNE CREWS AND RYAN YOUNG

Spending reform is all the rage in Washington, with both parties offering proposals to rein in the deficit. President Obama has proposed a mix of spending cuts and tax increases to trim $4 trillion from the deficit over 12 years. Rep. Paul Ryan (R-Wis.) has proposed $5 trillion in spending cuts over the next 10 years. But Obama and Ryan both neglect an area of reform as important as spending: the hidden tax of regulation.

Federal regulations cost the economy $1.75 trillion a year, according to a Small Business Administration study by economists Nicole V. Crain and W. Mark Crain. That is larger than this year's budget deficit, half the level of federal spending itself and nearly $300 billion larger than Canada's gross national income.

Regulatory reform is arguably more important than tax reform. Federal tax revenues are strikingly consistent, exceeding 20 percent of GDP just once in the last 50 years—this despite income tax rates as high as 70 percent and as low as 28 percent over that period. Raising rates, as some Democrats are proposing, would have little effect. Lower rates, while nice, would offer little fiscal impact.

On the spending front, neither party is willing to enact cuts sharp enough to align spending with revenues. That leaves only one way to increase revenues and reduce the deficit: economic growth. Lightening regulatory burdens can help achieve that growth.

Regulations cost the average business $8,086 per employee per year. Small businesses are especially hard-hit. Firms with fewer than 20 employees pay $10,585 per employee per year for regulatory compliance, according to the Crains' report. When hiring employees becomes more expensive, fewer get hired. No wonder unemployment is so persistent.

President Obama brought attention to regulatory reform in a January 18 *Wall Street Journal* op-ed. But the reforms he proposed would change very little. The 2011 edition of *Ten Thousand Commandments*, released on tax day by the Competitive Enterprise Institute, finds regulatory problems that Obama's rehash of Executive Order 12866 can do little to fix.

The regulatory deluge is constant. More than 64,000 rules have hit the books since 1995. Last year alone, 3,573 final rules came into effect. Another 4,225 are at various stages of the pipeline right now.

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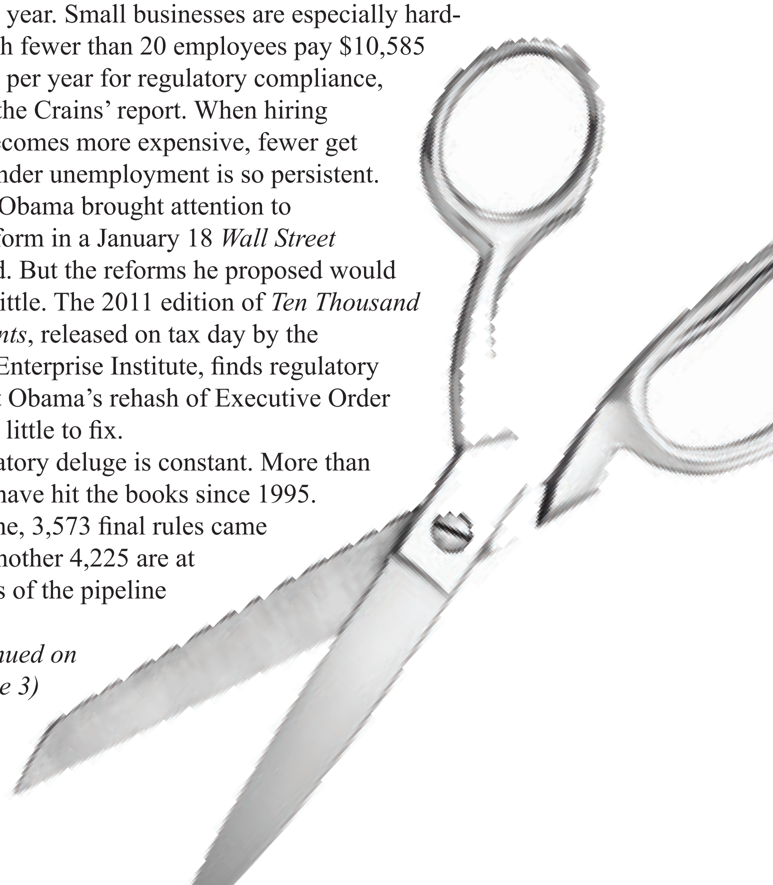

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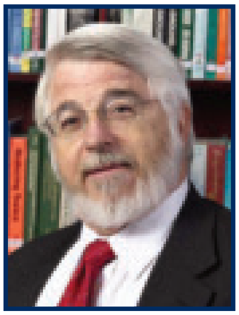

The Political Principal/Agent Problem

By Fred L. Smith, Jr.

If business is to address its conflicts with an expanding government, it must ensure that its external relations departments are well managed. To do so, corporate managers must manage the border conflicts within the firm. Specifically, they need to overcome the principal/agent (P/A) problem, which for too long has exposed business to political predation. Let me explain.

The principal—the CEO—must resolve the tensions between the organizational goals and the incentives of the various subgroups within the firm, coordinating the various activities of his employees—the agents—to ensure sustainable profitability. Good managers craft incentives, directives, and an organizational culture to ensure this result.

The classic example of the P/A problem within a firm occurs between the marketing and production departments. The marketing department may well seek a product variety to maximize sales, while the production department may favor product uniformity to reduce setup costs—both worthwhile goals that must be reconciled.

The CEO can address such internal conflicts by making explicit rules, adjusting the rewards of the departments, or allowing them to bargain. Effective managers devise an array of techniques to align the inherent biases of their subunits to achieve overall profitability. Management and MBA training programs teach business students how to employ these skills within the firm.

However, addressing this problem in the political sphere is much more difficult. Today, as government policies increasingly affect the bottom line, meeting that challenge is crucial. The skills needed to negotiate the regulatory state are complex and not easily acquired.

Not surprisingly, firms often recruit personnel to handle this task from the same government agencies or congressional committees that create and oversee these laws. Those individuals are often unfamiliar with the activities or culture of the firm.

Government affairs units within most firms actually benefit from greater government intervention in the economy. They have grown steadily as government regulations have increased. Thus, while such agents will seek to reduce the costs of new regulatory programs to their firm, they have no direct interest in the repeal of such policies.

Moreover, corporate government affairs officers are likely to retain cultural links to their former colleagues. They also regularly engage with groups—NGOs, regulators, legislators—that have even less sympathy for the firm—or for the market generally.

As a result, the firm's government affairs subunit managers can easily succumb to the temptation to "go native." Retaining their old biases, they may defend their employer, but are less likely to frame that defense in moral or public interest grounds.

Business literature scarcely touches this topic. The managers of these departments often presume that they represent the moral conscience of the firm, concerned with values rather than money. Under the rubric of feel-good terms such as "corporate social responsibility," "environmental stewardship," or "diversity," they pursue efforts that contribute nothing to the firm's profitability. Yet wealth creation and innovation are also moral concerns.

> *"… while [corporate government affairs] agents will seek to reduce the costs of new regulatory programs to their firm, they have no direct interest in the repeal of such policies."*

To strengthen public support for the market on which they depend, businesses must address their political principal/agent problem. Department managers must learn how their decisions impact the core profitability of the firm. Agents and principals alike must resist the seductive nature of the political process. Incentives for agents to direct corporate resources to activities not directly relevant to the firm's profitability should be charted carefully.

If business fails this test, it will continue to steadily shift power from the wealth-producing elements of the market to the wealth-redistributing elements of politics. That would mean not only less productive firms, but a poorer world, too. Business has the capacity to meet this challenge. It should not hesitate.

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Regulation,
continued from page 1

The 2010 *Federal Register* was a record 81,405 pages long.

“Economically significant” regulations are the subset costing more than $100 million annually. Two hundred twenty-four of them are in the pipeline right now, a 22-percent increase over 2009. If every single one of those rules only costs the bare minimum of $100 million, that is still an economic burden of more than $22 billion to a still-ailing economy.

Record spending begets record regulation. The more government spends and does, the more rules it has to pass. Having a smaller, leaner government is the best way to keep the visible hand of regulation from hampering the economy. But Congress and President Obama are quick to criticize any sizable spending cut as “austere.”

We disagree, but fortunately there are effective regulatory reforms that do not involve paring back the record spending that remains popular in Washington, if not anywhere else.

One reform is to purge the books of obsolete and clearly harmful rules. There is no need for Washington to have rules still on the books for a Y2K crisis that never even materialized. Nor is there any need for it to regulate the size of holes in Swiss cheese, which it does in great detail.

President Obama should appoint an annual bipartisan commission to comb through the Code of Federal Regulations and recommend rules for elimination. Congress would then be required to vote up-or-down on the package without amendment.

New rules should come with a five-year sunset. It would painlessly allow rules to expire as they outlive their usefulness. If a rule is effective or popular, Congress would vote to renew it for another five years.

Two hundred seventeen bills became law last year, compared with 3,573 final regulations. That ratio needs to be lowered. Congress should, at a minimum, vote on the manageable slate of economically significant rules. Regulation without representation lets agencies pass unpopular or harmful rules without supervision.

Spending and deficits are important issues, but regulation needs to be on any serious reform agenda. A “deregulate to stimulate” campaign in Congress may even help rein in spending and deficits, as well as regulation itself.

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Obama's Generic Proposal Is No Prescription for Health Savings

BY GREGORY CONKO

President Obama has been taking shots at the pharmaceutical industry since announcing his deficit reduction plan in an April 13 speech. Despite relying on major drug company support for enacting Obamacare last year, the president lately has bashed the industry for high drug prices. He now insists we can reduce health care costs by billions of dollars over the next decade by speeding up the availability of generic drugs and favoring them over more expensive brand name medicines.

Ironically, Obama's plan would threaten brand and generic firms alike, and the proposals would actually result in higher health care costs over the long run.

One initiative would crack down on litigation settlements in which brand manufacturers pay potential generic competitors to drop patent challenges. Critics, including Obama's Federal Trade Commission, claim these settlements are anticompetitive and condemn them as "pay-for-delay," because successful patent challenges would get generics to market sooner.

The administration claims that banning settlements could save $9 billion in federal health spending over 10 years. In practice, though, a ban would actually delay the introduction of more generic drugs than it would accelerate, resulting in higher drug prices.

Current law provides incentives for generic producers to challenge potentially weak drug patents in court. But when faced with the uncertainty of patent litigation, brand manufacturers sometimes offer to settle the lawsuits by paying the challengers to drop the litigation. They also agree to let the generics on the market a few years before the patents in question expire. Furthermore, the FTC already has authority under antitrust laws to block settlements where evidence indicates consumers would be harmed by higher prices.

However, the vast majority of settlements are pro-competitive, because most of the challenged patents would be upheld in court. After all, every one of them was already deemed valid by the U.S. Patent and Trademark Office, making them difficult to overturn.

More than half of the drug patent cases that make it all the way to a court decision fail. And there is no evidence that settled cases would have been more likely to result in patent invalidation. In the handful of cases where the FTC succeeded in blocking a settlement and forcing the litigation to go forward, courts more often upheld the patents than ruled them invalid.

Yet, there is one important difference between cases that go to trial and those that are settled. Settlements always result in a generic product reaching the market before the patent's expiration. Therefore, banning settlements altogether and forcing these cases into court would prolong the amount of time the typical brand drug enjoys a monopoly with no generic competition.

> In the long run, making it harder for biotechnology firms to recover their massive investments in new treatment options could jeopardize patient care and lead to higher health care costs by cutting off an important source of medical innovation.

That is why federal courts have rejected most of the FTC's efforts to block these settlements. In one decision, U.S. Seventh Circuit Judge Richard Posner wrote that "[A] ban on reverse-payment settlements would reduce the incentive to challenge patents by reducing the challenger's settlement options." He suggested that it was the proposed ban, not settlements, "that might well be thought anticompetitive."

Even the Supreme Court has rejected several opportunities to rule these settlements anticompetitive, declining to hear one such challenge as recently as March.

The rationale for banning reverse payment settlements seems to be that if both the brand and generic firms are benefiting, someone must be getting screwed. But if the FTC and President Obama get their way, that someone would be you, along with your fellow taxpayers and consumers.

The same could be said for Obama's other proposal, a reduction in the market exclusivity period for brand name biotech drugs from 12 years to seven.

As part of the Obamacare legislation enacted last year, Congress created a mechanism for the Food and Drug Administration (FDA) to approve generic versions of specialized biotech medicines called biologics. In recognition that biologics are far more costly to develop than conventional drugs, and that it takes innovators longer to recoup their research expenses, the law gives brand biotechs a 12-year exclusive marketing period before the FDA may approve generic competitors.

Now, just one year after that bargain was struck by Congress, Obama wants to upset the careful balance between quicker access on the one hand and incentives for innovation on the other, in order to exploit the promise of cheaper generics. But here too, alleged savings are more theoretical than real.

> The approval pathway for generic biologics, if implemented appropriately, could eventually save taxpayers billions of dollars.

White House officials are claiming an expected $2.3 billion in savings over the coming decade from shortening the exclusivity period. But in the long run, making it harder for biotechnology firms to recover their massive investments in new treatment options could jeopardize patient care and lead to higher health care costs by cutting off an important source of medical innovation.

The approval pathway for generic biologics, if implemented appropriately, could eventually save taxpayers billions of dollars. But all the projected savings are back-loaded in the 10-year budget window because the FDA is still several years away from implementing the legislation and turning the legal language into a practical route to generic approval. And much of the savings typically associated with generic knock-offs could be eroded if the FDA requires excessive clinical testing for copycat biologics no matter how quickly they get to market.

The potential risk to one of America's most innovative industries seems a high price to pay for a proposal that could not possibly help to reduce federal spending in the near term. Taxpayers and patients would be better served by expediting the FDA's implementation and streamlining the potentially burdensome hurdles for generic approval that are built into the legislation.

President Obama recently wrote that, "[V]ibrant entrepreneurialism is the key to our continued global leadership and the success of our people." The added burdens on brand and generic medicines are no prescription for a healthy economy.

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Obama's $5 Billion Giveaway

The Early Retiree Reinsurance Program has lavished taxpayer dollars on savvy corporations and unions

BY F. VINCENT VERNUCCIO

Instead of giving campaign-style speeches about raising taxes and increasing the debt limit, President Obama should be focusing on cutting needless programs that do nothing more than redistribute the wealth of hard-working Americans.

In less than a year, the Obama administration has given nearly $2 billion to some of the largest corporations and unions in America, as well as to a multitude of states. Section 1102 of the Patient Protection and Affordable Care Act—better known as Obamacare—created the Early Retiree Reinsurance Program (ERRP), a $5-billion taxpayer-funded subsidy for early retirees' medical costs. The program is about to run out of money, which is good news for everyone—except, of course, Congress' favorite special-interest groups.

According to Department of Health and Human Services (HHS), Congress designed ERRP to "provide financial assistance for health plan sponsors." It reimburses these sponsors for a part of the cost of insuring early retirees—those aged 55 to 65—and their families. The goal of the program is to reduce insurance costs to other participants in the plan by subsidizing early-retiree medical care. In other words, the program shifts the burden of early-retiree medical costs from certain corporate employers to all American taxpayers.

According to a March 31 progress report from HHS's Center for Consumer Information and Insurance Oversight, 1,300 participants have received a total of $1.8 billion through ERRP since the enactment of the program. In the first three-and-a-half months of 2011, ERRP shelled out $1.3 billion on top of the $535 million it spent in the last half of 2010.

The top corporate recipients of ERRP funds were AT&T ($140 million), Verizon ($91.7 million), and General Electric ($36.6 million).

Bailouts of deficit-ridden state and local governments are unpopular with the American public (anti-bailout bills and resolutions have been introduced in both houses of Congress). Yet ERRP enabled HHS to redirect money to just such bailouts. At least 44 percent of ERRP funds went to governments and unions. Considerable sums went to state employee pension funds, including the Public Employees Retirement System of Ohio ($70.6 million), the Teacher Retirement System of Texas ($68 million), and the chronically underfunded California Public Employee Retirement System ($57.8 million).

The largest recipient of ERRP funds was the United Auto Workers (UAW) Retiree Medical Benefits Trust, which got $206.8 million. UAW Trust chief financial officer Mary Beth Kuderik even helped push ERRP in an HHS video touting the program. In the video, she sat next to HHS Secretary Kathleen Sebelius lauding the benefits of the free money.

The program also helped UAW members through subsidies to their main employers: General Motors ($19 million), Ford ($7.1 million), Chrysler ($3.3 million), and parts supplier Delphi ($6.1 million). Add those funds to the amount taxpayers already spent to bail out GM and Chrysler in 2009 and the continuing cost of subsidizing cars like the Chevy Volt.

The UAW was not the only labor organization receiving ERRP funds; other recipient unions include the International Brotherhood of Teamsters (nearly $16 million, including funding for its severely underfunded Central States Pension Plan), and the United Food and Commercial Workers (nearly $9 million).

Encouraging people and businesses to apply for free money is not exactly difficult, so it is not surprising that HHS is boasting that it "has received applications from more than 50 percent of Fortune 500 companies, all major unions, and government entities in all 50 States and the District of Columbia."

It is also not surprising that ERRP is one of the first major spending programs under Obamacare and that it's about to run out of money prematurely. The program was supposed to last until 2014, but with money running low, administrators announced this month that they would not accept new applications after May 6, 2011. At the current rate of spending, the program may not last past 2012.

This is not the first time the Obama administration has lavished millions of taxpayer dollars on politically savvy corporations and unions. ERRP is a harbinger of the future of Obamacare. Funding for ERRP program is on pace to run out twice as fast as planned. This raises the question of how high the federal government's tab for the nation's health-care costs is likely to run—and how much it could add to the debt.

When politicians talk about cutting the deficit, programs like ERRP that dole out goodies to favored constituencies should be the first to go.

F. Vincent Vernuccio (vvernuccio@cei.org) *is Labor Policy Counsel at CEI. A version of this article originally appeared in National Review.*

Remembering Alan Bock

On May 18, venerable libertarian journalist Alan W. Bock passed away after a lengthy battle with cancer. He was 67. For three decades, Bock had served as a columnist and senior editorial writer for the fiercely independent and free market-oriented *Orange County Register*. In March, he retired from the paper and filed his final column. Even when told by doctors that time was quickly running out, Bock remained optimistic about the future of liberty and society, closing his final column with the *Register*:

> Thomas Jefferson put it strikingly when he said that the majority of mankind was not born with saddles and bridles so as to be ridden by their natural masters. He also said that the natural order of things is for government to advance and liberty to recede.
>
> There are reasons to wonder about his pessimism, however, with the recent turmoil in the Middle East providing the latest example. Most revolutions (ours was a rare exception) replace on old regime with one just as bad or worse. But the restiveness of the ruled, the death of communism, and other events show that the desire for liberty is also a constant—that most people sense that they can make decisions about their own lives better than a bureaucrat in a faraway capital and that it is their natural right to do so.
>
> Liberty is forever under siege and forever on the advance. I remain optimistic about the long haul.

A former Washington correspondent for *Reason* magazine in the 1970s, and author of the books, *Ambush at Ruby Ridge and Waiting to Inhale: The Politics of Medical Marijuana*, Bock's incisive analysis and top-notch writing on nearly every topic imaginable was well known among both libertarians and not-so-libertarians alike. This put him amongst a small group of journalists that also included the late Warren Brookes, whom CEI continues to honor annually with the Warren T. Brookes Journalism Fellowship. The loss of Bock leaves very large shoes to fill in our movement, and he will be greatly missed. Our thoughts and prayers are with his family and friends.

State Cartel Looking to Hike Internet Taxes

BY JESSICA MELUGIN

A handful of U.S. senators are teeing up legislation to capture more tax revenue on Internet purchases. Certainly there are valid (and some not so valid) concerns with the way online sales are taxed, but in the case of the Main Street Fairness Act, the cure is worse than the disease.

Currently, a Supreme Court decision prevents states from collecting sales-tax revenues from companies with no physical presence in the state. For example, if a Virginia resident buys a product online from a company in Oklahoma, Virginia cannot collect sales tax on the transaction unless that Sooner vendor has a store, warehouse, or anything else that qualifies as "nexus" in the Commonwealth.

This arrangement benefits consumers by promoting tax competition. It also protects interstate commerce by sparing sellers the burdensome task of remitting sales taxes to about 7,400 different state and local taxing jurisdictions across the country. Finally, it preserves the principle of "no taxation without representation" by preventing states from reaching outside their borders to tax businesses to which they are not accountable.

The multistate sales-tax cartel proposed in the Main Street Fairness Act does away with these benefits. The act empowers the member states of the cartel to collect sales-tax revenue from all retailers, no matter their location. The cartel is outlined in the Streamlined Sales and Use Tax Agreement, the product of a cooperative effort by 44 states and others to homogenize tax jurisdictions in exchange for permission to tax companies in other jurisdictions.

So who wins and who loses under this proposed new regime?

Let's start with the losers: Internet retailers. These online businesses will have no say in the sales-tax policies to which they're subjected and often won't benefit from the services they're funding, nor will their employees. Online businesses will be forced to compute tax obligations for the thousands of (still not very simplified) jurisdictions around the country.

According to a 2006 PricewaterhouseCoopers study, the cost of sales-tax compliance amounts to 16 cents of every dollar earned by retailers with less than $1 million in annual sales. These smaller firms don't have the accounting resources larger firms can afford, and therefore they will bear a disproportionate share of the new burden. Some states have made progress toward simplifying sales-tax collection in recent years, but the burden remains substantial. If legislators think they get an earful from bricks-and-mortar constituents, wait until voters running online businesses out of their garages and dens get hit with these compliance costs.

Consumers also will suffer. Customers benefit from the downward pressure healthy tax competition puts on tax rates and rules. The tax simplification assumed in this legislation surely will mean overall increases in taxes paid. "Assumed" is the right word to describe the simplification because the so-called "streamlined" agreement document is still 200 pages of loopholes and exceptions.

Most importantly, the principle of federalism will lose, too. The "states' rights" battle cry from proponents of this legislation is only half of what the Founding Fathers intended with their brand of federalism. They also meant to preserve the healthy tension among states competing for citizens and commerce. For this reason, they granted Congress authority to protect the free flow of interstate commerce—the antithesis of the bill's blessing for interstate tax collusion. We've seen what happens when states' rights include protectionism and discrimination against out-of-state entities; it was called the Articles of Confederation, and we all know how that ended.

Who wins if Congress signs off on this state tax cartel?

State and local tax coffers are meant to benefit from these increased revenues. The reality, however, looks a lot less lucrative than what is portrayed by cartel advocates. A 2010 study by the economic consultancy Empiris LLC found that total potential uncollected sales-tax revenues in 2008 were roughly $3.9 billion, or less than 0.3 percent of state and local tax revenues. That's hardly the silver bullet states need to solve their fiscal problems—which are largely caused by overspending, anyhow, rather than insufficient revenue.

It's true that bricks-and-mortar retailers may benefit from a more level sales-tax playing field. If Washington is really serious about righting this wrong, there's a better way: an origin-based system. Taxing all transactions (online, mail-order, you name it) at the seller's principal point of business, as we already do for traditional sales, would equalize treatment among retailers.

And, unlike the Main Street Fairness Act, an origin-based regime would preserve tax competition, protect the free flow of interstate commerce, spare retailers from reporting to more than one tax jurisdiction and keep state officials accountable to those they tax.

There are good reasons for Congress to reform online sales taxes, but the Main Street Fairness Act will do more unintended harm than good.

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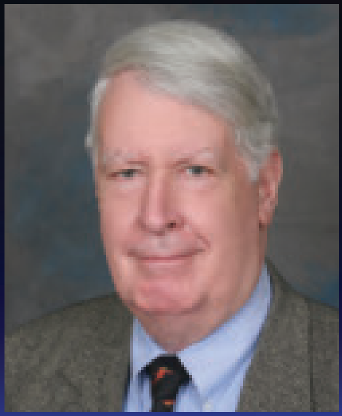
In March 2009, a YouTube clip of his speech to Gordon Brown in the European Parliament attracted 1.4 million hits within 72 hours making it by far the most watched political clip in British history.



Robert J. Smith

2011 Julian L. Simon Award Winner

R.J. Smith is a distinguished fellow in environmental policy at CEI. Mr. Smith also serves as director of the Center for Private Conservation (CPC), a former CEI project. The CPC documents, prepares case studies on, and publicizes noteworthy examples of private conservation and stewardship on private lands in the U.S. and abroad.

For tickets and more information,
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THE GOOD

House Subcommittee Addresses Government Regulation

On May 4, the House Judiciary Committee's Subcommittee on Courts, Commercial and Administrative Law held a hearing on "Cost-Justifying Regulations: Protecting Jobs and the Economy by Presidential and Judicial Review of Costs and Benefits." As CEI Vice President for Wayne Crews put it, "Regulations need more official scrutiny, transparency, and accountability from Congress, including votes on economically significant rules before they become binding." Crews, the author of the annual *Ten Thousand Commandments* report on federal regulation, has long warned of the dangers of "regulation without representation." To help control costs of the government's regulatory apparatus—now estimated to cost $1.75 trillion annually—Crews has called on Congress to "implement a Regulatory Reduction Commission and explore regulatory cost budgeting," and create a new "Regulatory Report Card."

THE BAD

Maryland Legislators Ban BPA, Jeopardize Public Health

In an ill-considered move that could jeopardize public health, Maryland legislators in April banned the chemical Bisphenol A (BPA) from infant formula and baby food packaging, despite a lack of evidence that BPA poses any health risk. Other states may soon follow suit. Angela Logomasini, Ph.D., a Senior Fellow at CEI's Center for Energy and Environment, is author of a recent study challenging the environmentalist scare tactics and misinformation that were engaged to lobby for the BPA ban. "These policies threaten to undermine food safety because BPA is used to make resins that line metal cans and other packaging to prevent the development of dangerous pathogens and other contamination, and there are few good alternatives," Logomasini concluded in her report.

THE UGLY

Obama DOJ Renews Assault on Internet Poker

On April 15, which has become known as "Black Friday" among online poker players and site operators, the U.S. Department of Justice (DOJ) seized the domain names of the three most popular Internet poker sites, froze their users' accounts, and shut down the sites. CEI Policy Analyst Michelle Minton, who has followed the federal war on Internet gambling for several years, describes the lengths to which the administration is willing to go to combat this supposed social ill as shocking. Given the regulatory uncertainties surrounding the restrictions on gambling site operators and payment card processors, freezing the accounts of individuals, some with thousands of earned dollars in their accounts, crosses a line. "The actions taken by the DOJ toward the online gambling community are a gross overstep of government action and a violation of Americans' rights to freely spend their money and time how they choose online," said Minton.

Media**MENTIONS**

Compiled by **Lee Doren**

Vice President for Strategy Iain Murray and Labor Policy Analyst Ivan Osorio argue that the NLRB has gone lawsuit crazy:

On April 20, the NLRB ruled that Boeing Corp.'s decision to open a factory in South Carolina amounted to "coercion" of its unionized workers in Washington State. South Carolina, unlike Washington, is a right-to-work state where employees cannot be required to join a union in order to work. Therefore, it's a good place to open a factory if you're trying to fulfill a backlog of orders while avoiding work stoppages.

Under the National Labor Relations Act (NLRA or Wagner Act), business actions to punish workers for striking are indeed illegal. Yet it is hard to see where the coercion and discrimination occurred in this case. The union in this case, the International Association of Machinists and Aerospace Workers (IAM), had waived its NLRA-granted right to a say in where production facilities could be set up.

Moreover, far from punishing workers in Washington State, Boeing has hired 2,000 more workers on Puget Sound, twice as many as will be employed at its South Carolina facility, since it announced plans for the latter. But apparently that's not good enough for the NLRB, which is seeking a court injunction to force Boeing to build its 787s in Washington State.

–May 2, *Real Clear Markets*

Vice President for Policy Wayne Crews asks how much regulation is enough:

President Barack Obama's recent federal budget proposal for fiscal year 2012 sought \$3.729 trillion in discretionary, entitlement and interest spending. For reference, George W. Bush had proposed the first-ever \$3 trillion U.S. budget. President Bush was also the first to propose a \$2 trillion federal budget—in 2002, only nine years ago. It took us from the founding to Reagan to get a \$1 trillion budget.

The result: Thanks to the bailouts and other amplified spending, the Congressional Budget Office projects a FY 2011 deficit of a previously unthinkable \$1.48 trillion, greater than FY 2010's actual deficit of \$1.294 trillion.

To be sure, many other countries' governments consume more of their national output than the U.S. government does. But in absolute terms, the U.S. government is the largest government on planet Earth, whether one's metric is revenues, expenditures, deficits, or accumulated debt.

–May 2, Forbes.com

Director of the Center for Investors and Entrepreneurs John Berlau explains why Kate Middleton is the Entrepreneurs' Princess:

Much has been made of the fact that Kate is a "commoner;" her mother and father started out their careers working as a flight attendant and flight dispatcher for British Airways, respectively. Yet she has known many of the privileges of aristocracy, because her parents built a multimillion-dollar business that supported elite educations for her siblings and her.

Some have asked if Kate will be a "people's princess," in the mold of Prince William's late mother, Diana. But Kate and her family actually embody a noble, if relatively modern, tradition of their own, a tradition of bettering oneself and one's family while improving the lot of society at the same time.

The tradition that Kate and her parents and siblings embody so well is that of entrepreneurship. For centuries in Britain, commercial activities were looked down upon by many in the aristocracy, whose wealth lay in land ownership and who would not deign to dabble in trade. This week's wedding can be seen as the culmination of a long process of elevating the social status of entrepreneurship itself.

–April 27, *The Wall Street Journal*

Associate Director of Technology Studies Ryan Radia and Research Associate Jacqueline Otto argue that Texas lawmakers should reject a tax on satellite TV:

No one likes new taxes especially ones that don't make sense. Unfortunately, politicians never seem to learn this simple lesson. Lawmakers in Austin are considering a bill that would slap Texans who subscribe to satellite television with a huge tax increase.

Spearheading this push to nearly double the tax on satellite television is state Rep. Craig Eiland, D-Galveston. Supporters of the tax argue that it would "level the playing field" between cable and satellite subscribers, complaining that Texans who get cable television pay a roughly 5 percent municipal franchise fee on top of ordinary sales taxes—a fee that doesn't apply to satellite television.

To be sure, lawmakers should worry about discriminatory, unfair taxes, but municipal franchise fees are different. Assessing fees on private companies that use public resources is just common sense. Cable television lines typically run underneath city streets and other public lands that must be dug up from time to time for repairs or upgrades. This process can be inconvenient and costly. Why shouldn't cable companies and their subscribers reimburse towns for the reasonable costs they incur?

Satellite providers, by contrast, don't rely on public resources. Instead, they invest billions of dollars to launch their own satellites into space. DirecTV, for instance, has a fleet of a dozen satellites that orbit Earth, beaming video signals to the small dishes that are so frequently seen on residential rooftops and balconies. Upgrades to this system typically involve nothing more than swapping out a set-top box or adding a new dish—there is no tearing up city streets or public lands.

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About that Progressive Union Support…

Labor activists, fresh from their major show of force in Wisconsin against Governor Scott Walker's plan to curtail the state's costly collective bargaining agreements with its unionized employees, have attempted to turn back the clock on American perceptions of the labor movement. Beyond the public sector, labor unions have been hemorrhaging members for decades. Americans are more skeptical of union power than ever before, but laborites had assumed pro-Obama progressives would be an uncritical constituency. Economic reality, however, has a way of shifting perceptions and alliances. From California to Massachusetts, traditional union-supporting Democratic governors and legislators have begun questioning excessive public-sector employee benefits. Meanwhile, at the left-leaning Huffington Post, most writers are currently crossing the electronic picket line—defying a strike led by the Newspaper Guild and the National Writers Union.

Honolulu Considers Walking-and-Talking Ban

The Obama administration, in a push led by Transportation Secretary Ray LaHood, has been waging a war on distracted driving. The administration's various policy summits have resulted in more states enacting restrictions on talking and texting while operating a motor vehicle. Oahu currently bans the use of electronic devices while driving, but a new bill making its way through the Honolulu City Council seeks to extend the ban to pedestrians and cyclists while they cross the street. The police department has publicly opposed the pedestrian cell phone ban, arguing that it will serve no useful function, waste department resources, and that current laws already address unsafe pedestrian behavior. The bill then passed on its first reading.

USDA Spends $2 Million on Study of Calorie-Counting Photo Imaging of Children

Children in some of San Antonio's public schools will soon have another potentially humiliating event added to their daily routines: photograph reporting of what they eat for lunch. The U.S. Department of Agriculture is launching a $2 million study to track what children eat for lunch over the next four years. School officials claim the voluntary (for parents) program will protect the identities of the participating elementary school students, as only lunch trays will be photographed. It would work like this: Students are assigned trays with individual bar codes. Cameras above the cashier are activated when the tray is scanned. When the students return the tray to the kitchen, another camera is activated and snaps a photo of what food remains. Researchers will then be able to analyze student choices and the nutritional values of different school meals, although it seems a bit difficult to imagine the parents who would actually opt into this program.

San Francisco Banishes Urban Scourge: Yellow Pages

It should surprise no one that hard copy Yellow Pages will soon be a thing of the past, as more and more Americans rely on digital alternatives such as Google, YellowPages.com, Yelp.com and Angie's List, and as advertising revenues from dead-tree directories dry up. But this natural phase-out is too slow for some, as is evidenced by a recent move on the part of the San Francisco Board of Supervisors. In a 10-to-one vote, the Board voted to outlaw distributing free copies of the Yellow Pages to anyone who doesn't specifically request one.