

The
Madison Policy Digest

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Presented by: **The James Madison Institute**

JMI News Briefs

* Special Message from JMI President Bob McClure:

This month we have truly lost one of America's greatest champions of freedom, Dr. Milton Friedman. His work in free-market economics, fiscal responsibility, and school choice has profoundly shaped the way public policy is studied and has laid a foundation for all policy research centers that promote liberty.

His hope for a better education for all children was visionary when he first discussed the idea of school vouchers in 1955. His work on behalf of parental choice is now being carried on by the Milton and Rose D. Friedman Foundation. Dr. Friedman's legacy will clearly continue under the leadership of their great work.

Dr. Friedman once remarked that, "The government solution to a problem is usually as bad as the problem." As we reflect on the achievements of Milton Friedman, we realize that his articulate passion for freedom will live on through his research, writings, and the hard work of many.

To find out more click here: <http://www.friedmanfoundation.org/>

* JMI Policy Director, Bob Sanchez, contributed to an article on tax policy in the December 2006 edition of Florida Trend. The article is appropriately entitled *Tax Examiners*.

* Be on the lookout for appointments to the Taxation and Budget Reform Commission. The commission is organized every 20 years by state law and was created to examine the state budgetary process, the revenue needs and expenditure processes of the state, the appropriateness of the tax structure of the state, and governmental productivity and efficiency.

Featured Topics

**FLORIDA'S NEW BATTLEFIELD
MORE MEDICARE MISADVENTURES
TAXES: A SCHOLARLY ANALYSIS
FUTURE OF FREE TRADE**

Rubio promises `battlefield of ideas'

Marco Rubio has made history as Florida's first Cuban-American House speaker. He vowed to focus on finding solutions, not engaging in partisan fights.

The Miami Herald

By Mary Ellen Klas and Gary Fineout

TALLAHASSEE - Marco Rubio, the son of exiles who meteorically rose from West Miami's city council to the heights of the state Legislature, was sworn in Tuesday as Florida's first Cuban-American House speaker, pledging a new era of inclusiveness and an end to "political gamesmanship."

In a speech grounded less in ideology than in cold political necessity, the 35-year-old warned of an "emerging crisis" of government inaction and voter apathy that threatens Florida's next generation. "At this very moment, somewhere in Cuba, someone is preparing to risk their lives and cross the Florida Straits on an inner tube because they cannot choose their leaders," Rubio said.

"Yet ironically here in Florida, a place people risk their lives to get to in search of freedom and democracy, in our last election the majority of the people eligible to vote chose not to."

Rubio promised to transform the House into a "battlefield of ideas" -- a theme echoed earlier by his Senate counterpart, Ken Pruitt.

For complete report click here:

<http://www.miami.com/mld/miamiherald/news/state/16071512.htm>

Medicare Part D major disaster for chronically ill

Once able to get help with medical bills, residents now caught in gray area as their health declines

Naples Daily News

By Liz Freeman

November 28, 2006

They are at wit's end when medical bills arrive in the mail that Medicaid used to pay. There is no way many of the 38,000 chronically ill Florida residents who once were part of the state's Medically Needy program can pay the bills for their visits to specialists, for laboratory tests or dialysis, given that they struggle to live on disability income of about \$800 a month.

With the launch of the Medicare Part D drug program this past Jan. 1 by the federal government, many of the Medically Needy no longer qualified for the state program. That meant the state's Medicaid program quit picking up the tab for their medical expenses.

For complete article click here:

http://www.naplesnews.com/news/2006/nov/28/petition_asks_legislature_look_medically_needy/?local_news

Taxes and Economic Growth

National Center for Policy Analysis

By Gerald W. Scully

Senior Fellow

NCPA Policy Report No. 292

Introduction¹

In the 18th century, economist Adam Smith observed that raising tariff rates beyond a certain level was self-defeating because imports, and hence tariff revenue, fell. One reason was that high tariffs encouraged smuggling. In the 20th century, President John F. Kennedy recognized the

same inverse relationship between tax rates and government revenue when he proposed broad tax cuts — cuts that were passed in 1964, after his assassination. “It is increasingly clear that no matter what party is in power, so long as our national security needs keep rising, an economy hampered by restrictive tax rates will never produce enough revenues to balance our budget — just as it will never produce enough jobs or enough profits,” Kennedy said in a speech in 1962. “It is a paradoxical truth that tax rates are too high today and tax revenues are too low and the soundest way to raise the revenues in the long run is to cut the rates now. The experience of a number of European countries and Japan have borne this out.”²

Ironically, the insight of John F. Kennedy was a basis for what has become known as the supply-side revolution, later popularized by Arthur Laffer. It furnished the impetus for President Ronald Reagan’s cuts in marginal tax rates. As a practical matter, the income tax is somewhat progressive. A progressive tax structure discourages additional productive effort, and as a result, tax revenue is lower than it would be with a flatter income tax structure. Lower marginal and average tax rates encourage work and investment, and reduce efforts to avoid taxes.³

The supply-side emphasis on the tax revenue consequences of high levels of taxation ignored the more important question of their effect on economic growth. The Reagan tax cuts led to a tremendous expansion of the economy during the 1980s, and arguably into the 1990s.⁴ Economic growth raised revenues as the income of Americans grew. In recent years, a number of economists have explored the relationship between the overall tax burden — measured as a percentage of the output of goods and services or personal income — and the rate of economic growth.⁵

Empirical evidence shows that as the tax burden rises beyond a certain level, the rate of economic growth slows. [See Figure I.] Why economies grow and what government policies (if any) allow some societies to grow rapidly or cause countries to stagnate or decline has been debated for many years. Determining the tax structure that leads to the greatest creation of private wealth, and with it the largest amount of tax revenue, is a key to solving some major economic problems of our time.

For complete report click here: <http://www.ncpa.org/pub/st/st292/st292.pdf>

Opinion

Protection Racket

Free trade is a key to prosperity. Why do Democrats fight it?

By Pete du Pont

November 22, 2006

"Free trade is the most important single way to promote growth," Milton Friedman said in an interview a few weeks before his death.

But the new Democratic congressional majority doesn't understand that. Just a week after the elections one of the first actions Congress took was to vote down the new trade agreement with Vietnam. Ninety-four Democrats voted against it, 90 of them for it; and that is before some 16 newly elected House Democrats opposed to free trade are even sworn in. As Charlie Rangel, the incoming House Ways and Means Committee Chairman, put it, "We need to be angry as hell and try to protect American industry."

Five new Democratic senators share similar views on free trade. Ohio's Sen.-elect Sherrod Brown wrote a book entitled "Myths of Free Trade," arguing that trade agreements should only be allowed if those nations pass laws "guaranteeing enforceable labor and environmental

standards." John Edwards is a protectionist zealot; John Kerry said in 2004 that unless the treaties had the standards in them he would as president veto them.

Republicans aren't always better: several years ago half of GOP senators voted for an amendment (which failed) forbidding the federal government from awarding contracts to companies that outsource any of their work overseas. And President Bush in his first term imposed tariffs on imported steel, which saved the jobs of 5000 U.S. steelworkers but caused higher steel prices that eliminated 23,000 jobs in the steel-consuming industries.

For complete article click here: <http://www.opinionjournal.com/columnists/pdupont/>

Quote of the Week

[People constantly requesting government intervention] are casting their problems at society. And, you know, there's no such thing as society. There are individual men and women and there are families. And no government can do anything except through people, and people must look after themselves first. It is our duty to look after ourselves and then, also, to look after our neighbours.

-Margaret Thatcher

Cartoon of the Week



Jake Fuller, *The Gainesville Sun*

Speakers' Bureau

Need a speaker for your next event? JMI's team and network of scholars are available to headline or participate in your organization's next gathering. JMI staff will help you match the

topic with the appropriate speaker. To learn more contact Thomas at 850-386-3131 or Thomas@JamesMadison.org

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