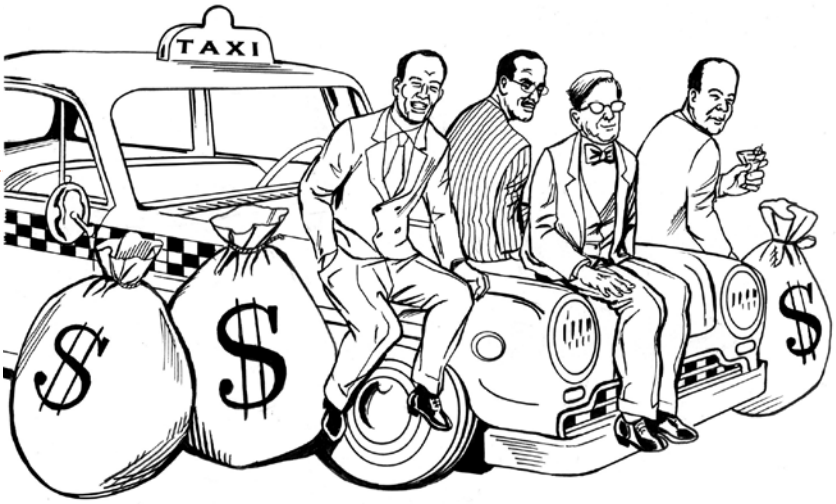
Briefly Noted



Taxi Medallions Coming to a City Near You

By MATT THOMAN and IKE BRANNON
American Action Forum

Last fall, the *New York Times* reported that two New York City taxicab medallions had sold for $1 million apiece, a new record. In New York City as well as a few other major cities, a taxicab needs to possess a medallion to legally pick up and drop off riders. While most cities have some process to register and license taxis and their drivers, right now Chicago and Boston are the only other major American cities that run a system similar to New York's. And if some members of the Washington, D.C. City Council have their way, that city will soon be joining the list—not because these systems serve their markets well, but because the politically connected owners of the major cab companies stand to profit handsomely and are pressuring the council to do their bidding.

Opposition to taxi medallions unites liberal and conservative policy groups. In September, the Competitive Enterprise Institute issued an open letter declaring their opposition to the proposed legislation, co-signed by other influential right-wing groups including Americans for Tax Reform, FreedomWorks, and the Reason Foundation. Left-wing groups such as the Center for American Progress, the Urban Institute, and the Brookings Institution have also published tracts condemning the proposal.

Their objection is simple: a medallion system would strictly limit the number of taxicabs allowed to operate in the city, ultimately raising prices for consumers, increasing wait times, and limiting service to a few high-traffic areas of the District. In effect, the proposed medallion legislation is designed to function as a cap-and-trade program for taxis, but with no high-minded public purpose.

Drivers, as opposed to the large cab companies, are up in arms against the proposal. While there are roughly 8,000 cab drivers currently operating in the District, the legislation caps the number of medallions at 4,000—which means that at least half of the city's drivers will be out of work or forced to share a medallion with another driver. Medallions will also negatively affect owner-operators who are unlikely to afford—if New York City is any indication—the exorbitant price to which medallions will eventually rise. These circumstances would run owner-operators out of business, pushing them to work for larger companies where they would be forced to either rent taxis at a premium or drive for the cab companies at lower wages than they would otherwise earn on their own, with the lion's share of the profits going upstairs to the medallion owners.

The munificent D.C. City Council suggested that a medallion would serve as a "retirement account" for drivers, allowing them to finance their golden years by selling their medallions to other cabbies. But the council somehow overlooked that drivers would first have to finance buying the medallions.

Stench of corruption | In essence, the D.C. Council would be passing a law that would create a valuable property, its value extracted entirely from consumers—and then turn around and give this property to politically connected quasi-monopolies that control the industry.

Unsurprisingly, the bill stinks of corruption. The Reason Foundation reports that the bill was written by John Ray, a former city councilman and current lobbyist for the cab industry employed by Jerry Schaeffer, whose family owns 14 D.C.-area cab companies. It was then introduced by Ray's former employer, Councilman Harry Thomas (who resigned earlier this year and pled guilty to embezzling more than $350,000 in city funds), and—naturally—former D.C. mayor and current councilman Marion Barry, whose ethics problems are well known. The original sponsor was city transportation committee chair Jim Graham, who ultimately left the committee after his chief of staff was convicted of taking bribes from a taxi company that was to receive special treatment from a previous medallion bill.

As the legislation heated up last summer, the *Washington Post* revealed that city mayor Vincent Gray's 2010 election campaign had accepted $60,000 in illegal cash donations from cab companies. Around the same time, the *Washington Examiner* reported

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ILLUSTRATIONS BY KEVIN TUMA

that Gray's campaign had also failed to report hundreds of free cab rides given to deliver D.C. voters to the polls during the Democratic primary—which in D.C. determines the outcome of the general election. Incidentally, taxi lobbyist Ray's primary justification offered for the legislation is to eliminate corruption from the system.

Proponents of the D.C. legislation have not had the chutzpah to claim that it is intended to benefit the consumer. That is to the proponents' credit, because the bill will make life much worse for those who take taxis. If the legislation becomes law, consumers will pay higher prices while being serviced by many fewer cabs, with many areas of the city becoming underserved. The benefits of a medallion system will accrue almost entirely to the Schaeffers and other owners of the major taxicab companies in the city. One would be hard-pressed to find another piece of legislation this side of subsidies for professional sports stadiums that does as much to transfer wealth from average consumers to wealthy, politically connected entities. R

First-Year Grades on Obama Regulatory Reform

By IKE BRANNON and SAM BATKINS
American Action Forum

On January 18, 2011, President Obama issued Executive Order 13563, which promises to "protect public health, welfare, safety, and our environment while promoting economic growth, innovation, competitiveness, and job creation." The order instructs federal agencies to reform their regulatory process, demanding that they "modify, streamline, expand or repeal" burdensome regulations. Somewhat predictably, the press was quick to hail this move as an example of the president tacking to the center by executing a common-sense, good-government reform that everyone would presumably applaud.

Enough time has gone by for us to ask fairly whether the order has changed anything. By any objective measure the answer would be a resounding no. Compared to the virtual avalanche of new rules and regulations emanating from this administration, the amount of regulations that have been repealed or modified amounts to a warm snowball.

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In an ongoing project, the American Action Forum tracks all regulations that impose a private-sector, intergovernmental, or paperwork burden cost—a tally that includes all deregulatory measures. In 2011, there were 12 proposed or final regulations that purported to reduce compliance costs or paperwork burden, and the administration estimated that these measures would save American businesses $1.36 billion, as well as 4.7 million paperwork burden hours. However, before allowing the administration to declare this process a success, a caveat should be noted: that billion or so in compliance savings occurred concomitantly with roughly $231 billion in *new* costs imposed by regulations issued in 2011.

Moreover, as one looks closely at the 12 "reforms," one becomes underwhelmed by their scope. Consider what is supposedly the largest deregulatory action: a proposed rule under Medicare and Medicaid that would reform hospital and critical access programs. The administration estimates savings from this rule of $942 million and a reduction of 9.6 million paperwork burden hours. Without the paperwork savings from the proposal, however, the 11 other deregulatory measures would actually impose 4.9 million *additional* hours of manpower to comply.

The next two largest deregulatory acts, which have often been hailed by Office of Information and Regulatory Analysis administrator Cass Sunstein and President Obama himself, are the Environmental Protection Agency abandoning of the "spilled milk" final rule (officially, the "Oil Spill Prevention, Control, and Countermeasure for Milk" rule) and the proposed relaxing of the gasoline vapor recovery rule. The spilled milk rule would have required farmers and other industrial handlers to treat a milk spill the same as a petroleum spill—undertaking costly, labor-intensive cleanup efforts—under the reasoning that milk fat is a type of oil. The vapor recovery rule requires some gas stations to use vapor recovery systems, a requirement that is becoming unnecessary because of federally required vapor control systems on new cars. Supposedly, these two reforms will yield $231 million in combined savings for affected businesses.

However, many scholars have disputed the savings in the repeal of the spilled milk rule. George Washington University professor (and former acting OIRA administrator) Susan Dudley noted last year that "these aren't costs that milk producers ever incurred.... Yet, EPA is now taking credit for 'saving' millions for a Bush initiative aimed at avoiding a statutory interpretation that never existed—except in the minds of a few zealous EPA staffers." In addition, although the EPA's vapor recovery proposed rule could save $88 million, the proposal has not yet been implemented. The Unified Agenda does not list a timeline for a final

rulemaking, but Cass Sunstein, director of OMB's Office of Information and Regulatory Affairs seemed to indicate a final rule was inevitable, noting "modern vehicles already have effective air pollution control technologies."

Another regulatory rescission involved final rule implementing the Medical Loss Ratio Requirements (the federally stipulated minimum that health insurers can spend on medical services) under the Affordable Care Act. An earlier version of the administration's rule imposed more than $230 million in costs and 1.2 million in paperwork burden hours. The administration estimates that the revised version of the rule will lower that cost by $7.2 million—that is, 3 percent. The idea that anyone would interpret this tiny change as alleviating a large burden on business is absurd on its face.

This is not the only "savings" from minute tweaking of one of the administration's own rules. The Federal Railroad Administration's "Positive Train Control Systems" rule imposes more than $13 billion in long-term costs with benefits so far below that amount that even Sunstein admitted it did not come close to passing any cost-benefit analysis. To mollify businesses forced to comply, the administration again passed a new rule that lessens the costs of compliance by $818 million—a pittance in the context of the original rule. The new rule comes with roughly $150 million of additional labor costs on its own, incidentally.

Taken together, no one would think to consider these 12 regulatory actions as a fundamental change of administration regulatory philosophy. They consist of either the issuance of minor rules that slightly lessen the burden of much costlier regulations or the removal of a handful of inconsequential regulations. Only an administration that apparently believes economic activity is impervious to anything government throws in its way would openly boast of such "reform" efforts. The Obama administration values style over substance, clever marketing angles, and well-publicized examples, and so it naturally assumes that it can convince the populace of its newfound friendliness to business despite all evidence to the contrary.

Failure to perform | To date, only 10 agencies have formal deregulatory actions published in the *Federal Register*. Obviously, this cannot be the full extent of regulatory reform, lest President Obama admit his effort is an abject failure. All cabinet-level agencies have submitted preliminary and final review plans, while a few independent agencies have submitted a "plan to plan" without taking any quantifiable deregulatory actions. There is some debate as to whether independent agencies are under any obligation to comply with EO 13579 and, as a result, most have neglected to issue any formal proposed or final rules in response to the order, let alone bother to quantify future rescissions.

For example, the Commodity Futures Trading Commission noted, "After the substantial completion of the promulgation of final rules under the Dodd-Frank rulemaking process ... the Commission intends to begin the process of the periodic, retrospective examination of the remainder of its regulations." The CFTC must also still form a "Regulatory Review Group" to implement any plan. Given that Dodd-Frank rulemaking will continue into 2013, with more than 42 planned rulemakings, it will take some time for the CFTC to formulate deregulatory actions.

The Securities and Exchange Commission took a similar track, inviting "interested members of the public to submit comments to assist [the SEC] in considering the development of a plan for the retrospective review of its regulations." To date, the SEC has proffered seven questions for public comment, but the docket reveals few public comments and suggestions. The Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Trade Commission, National Credit Union Administration, and Office of the Comptroller of the Currency have completely ignored the executive order thus far.

In short, a year of ostensible regulatory review has produced nothing that remotely resembles what anyone would consider genuine reform. It is clear that EO 13579 has failed to motivate independent agencies to act, and the cabinet-level departments that cannot legally evade the order have produced the merest hint of regulatory roll-back. The result: deregulation amounts to a pittance compared to the flood of new regulatory initiatives issued in 2011.

Dwarfed by new rules | In a twist of bureaucratic irony, the same day the *Wall Street Journal* ran a Sunstein op-ed proclaiming how the Obama reform agenda will save Americans billions of dollars, the *Federal Register* published a proposed EPA regulation on air emissions from natural gas fracking operations. The regulation is estimated to cost U.S. businesses at least $740 million. Less than a month later, the agency finalized greenhouse gas standards for medium- and heavy-duty engines and vehicles. Those standards are estimated to cost Americans more than $8 billion during the life of the program. No administration official took to the pages of the *Wall Street Journal* to tout either measure.

In fact, the billions of dollars Sunstein trumpeted in his *Wall Street Journal* piece have been largely illusory thus far, with the final deregulatory rules totaling just $187.4 million in savings by administration math. This number is likely a gross overestimation of the actual savings realized by American businesses due to this initiative. With an estimated $231 billion in compliance costs for regulations the Obama administration issued in 2011—another number that is undoubtedly well wide of the mark when it comes to the true costs to businesses to meet the new standards—the notion of this administration providing any "regulatory relief" becomes patently absurd.

Style over substance | Taking all of the administration's estimates as gospel—a task that must ignore any incredulity—there are still dozens of economically significant regulations for every feigned attempt at deregulation. Although the president has joined his predecessors by issuing an executive order promoting reform, he has fallen in line with the bureaucratic group-think that rewards political allies and often ignores private-sector burdens, and the regulatory state continues to grow by leaps and bounds. And for that, his regulatory reform can only be construed as a failure in its ostensible purpose. R

A Welfare State by Any Other Name

BY PIERRE LEMIEUX *Université du Québec en Outaouais*

Americans and Europeans both take perverse joy in criticizing each other's welfare system. According to the typical European, the U.S. system leaves elderly and poor Americans exposed to hunger, minimal shelter, and meager health care. Most Americans, on the other hand, think European welfare benefits are so rich, and the taxes to support them are so high, that there is little incentive for Europeans to work or be entrepreneurs.

I'll leave others to probe those characterizations. What I want to point out is how little difference there is between the American and European welfare states.

Table 1 compares expenditures by function as a proportion of total government expenditures (all level of governments) for 10 Eurozone countries (Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain—call them collectively the Euro10) and the United States in the year just before the Great Recession. The other seven Eurozone countries are excluded because, in most cases (like Greece), no data are available. The numbers are surprising.

It is true that, if one looks only at social protection expenditures—disability and old-age pensions, welfare, unemployment insurance, housing assistance, and such income support programs—the Euro10 spend twice as much of their budgets (40 percent) as American governments (all levels) do (19 percent). However, money income support is just one of the functions of the welfare state. Another major function is health care and, on this one, American governments spend 50 percent more of their budgets (mainly on Medicare and Medicaid) than the Euro10—21 percent versus 14 percent.

Public expenditures in education can also be considered a function of the welfare state. More of government budgets go to this function in the United States (17 percent) than in the Euro10 countries (11 percent).

Adding up all these welfare state functions—social protection, health, and education—we obtain total expenditures (line 11 of the table) of 65 percent of government budgets for the Euro10 vs. 57 percent for the United States—a pretty small gap.

The gap is further reduced when we take the unweighted average of the Euro10 countries. This approach reduces the influence of large countries like France and Germany, which have higher government expenditures, weigh more in the total, and may misrepresent the typical European country. We can then calculate that our typical European state spends 63 percent of its budget on welfare-state functions. Thus, only a 6 percentage point difference (63 percent vs. 57 percent) separates the proportion of government money spent on welfare state functions in the typical European country and the United States; or, may we say, the European welfare state is only 10 percent larger in Europe than in America. There is even one European state where welfare state expenditures are lower than in the United States: the ratio is 52 percent in Portugal.

These results call for a few caveats. Since the total expenditures of the average Euro10 state correspond to a higher proportion of gross domestic product than do government expenditures in the United States, the gap gets amplified in Europe when welfare state expenditures are directly compared to GDP. It can be calculated that (in 2007), welfare state expenditures as defined above were 30 percent of GDP in the Euro10 countries compared to 21 percent in the United States. The 10 percent gap calculated previously is thus amplified to a 43 percent difference. Moreover, the political culture remains less welfare-statist in the United States than in Europe. The American welfare state is far from obliterated, but one could say that the glass is half full.

Growth of the beast | All this is not surprising given the tremendous growth of the American welfare state since the Great Depression.

We can get a glimpse at this growth by considering the evolution of social benefits to persons, shown in Figure 1. These U.S. Bureau of Economic Analysis data mainly comprise government expendi-

TABLE 1

Government Expenditures by Function, Europe and United States

All levels of government, in proportion of total government expenditures, 2007

		Euro10	U.S.
1	General public services†	14%	14%
2	Defense	3%	11%
3	Public order and safety	4%	6%
4	Economic affairs	8%	10%
5	Environmental protection	2%	*
6	Housing and community amenities	2%	2%
7	Health care	14%	21%
8	Recreation, culture, and religion	2%	1%
9	Education	11%	17%
10	Social protection	40%	19%
11	*Welfare state expenditures* (7 + 9 + 10)	65%	57%
12	*Welfare state expenditures, unweighted*	63%	

Euro10: Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

† Includes interest on the public debt. * Not available. SOURCE: Organisation for Economic Co-operation and Development

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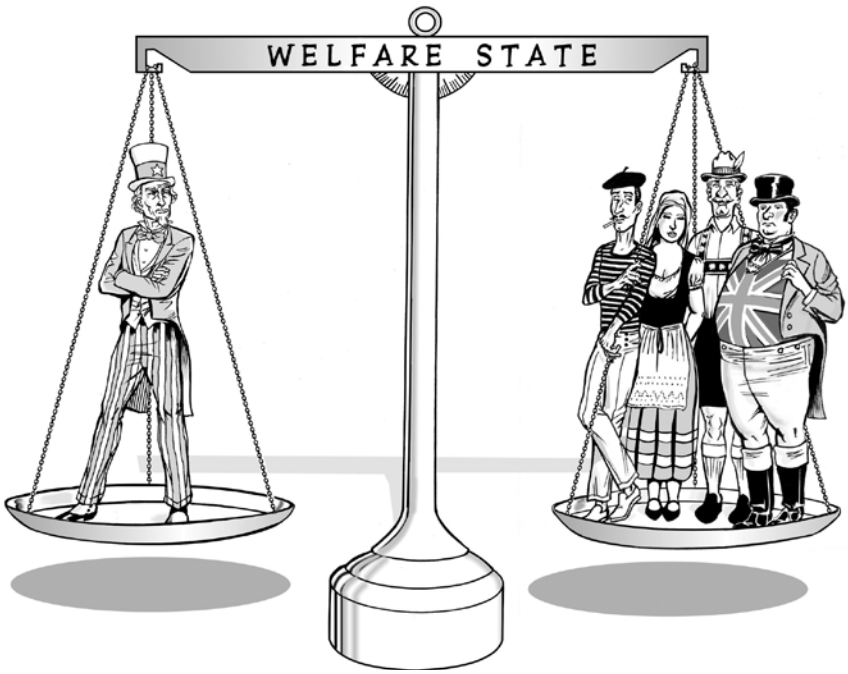
tures on Social Security, Medicare, Medicaid, and unemployment benefits; they do not include education and, in general, have a smaller coverage than the Organisation for Economic Co-operation and Development's comparative data. The advantage of the BEA data on social benefits is that they go back to 1929, much earlier than the other statistical series available. Figure 1 gives the ratio of these expenditures both to GDP (bottom curve) and to total government expenditures (top curve). The two measures generally move together.



From 1929 (the year the Great Depression began) to 1933 (the trough of the Depression), the share of social benefits to persons tripled. Both a GDP drop and an increase in the actual amounts of social benefits explain this evolution. But the amount of social benefits in dollars (not shown on the chart) increased by more than 40 percent, which corresponds to an even steeper increase in constant dollars as prices dropped during the Depression. From this viewpoint, the American welfare state was born under Herbert Hoover's administration, and then came of age under Franklin Roosevelt's, when social benefits expenditures doubled over a few years. By 1936, they had reached 3.2 percent of GDP, four times what they were in 1929.

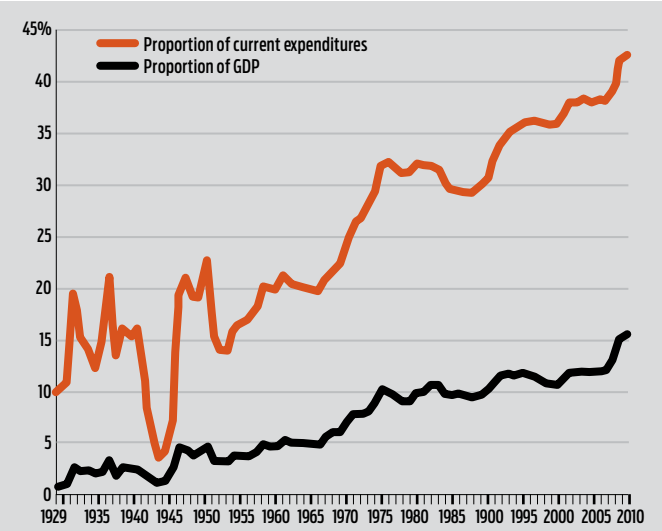
Toward the end of World War II, social benefits to persons jumped again because of veterans benefits. With ups and downs due mainly to the business cycle, the ratio remained more or less constant until the mid-1960s. By that time, veterans benefits had started easing, but the Social Security system, created in 1935, had begun to ramp up.

Figure 1 clearly shows the third era of growth in social benefits, from the mid-1960s to the mid-1970s, when the ratio of these benefits to GDP doubled again. From 1965 to 1975, social benefits paid by government to individuals in the United States climbed from 4.7 percent of GDP to 10 percent.

FIGURE 1

Growth of Social Benefits to Persons

United States, 1929–2010



Source: U.S. Bureau of Economic Analysis

The American welfare state grew more slowly between the mid-1970s and the onset of the 2007–2009 Great Recession. The ratio of social benefits to GDP was still on an upward trend, though, and reached 12 percent in 2007. Since GDP grew briskly over most of that period, the slow upward creep can be seen better in the ratio of social benefits to total government expenditures, which increased from 33 percent to 38 percent between 1975 and 2007.

The Great Recession was another growth period for the American welfare state. In 2010, social benefits paid to individuals amounted to more than 15 percent of GDP. On each dollar produced and earned in the economy, the American welfare state took 15 cents in taxes and redistributed that money in direct support to some individuals.

More generally, differences between Europe and the United States are often exaggerated, as demonstrated by Peter Baldwin in his 2009 book, *The Narcissism of Minor Differences: How America and Europe Are Alike, an Essay in Numbers* (Oxford: Oxford University Press). For example, the richest 10 percent of taxpayers pay a higher proportion of income taxes in the United States than in all major European countries, and these taxes are more progressive in America than in most of these countries.

I have shown how the welfare states are similar on the two sides of the Atlantic. Similarities often become more striking if, instead of comparing the whole diversified United States with Europe, we compare individual American states with European countries. For example, minimum wages (calculated in dollars corrected with Purchasing Power Parities) in Washington, Oregon, Connecticut, and Vermont are higher than in all major European countries; Maine is not far behind France. Again, however, the glass is half full, as the welfare state still faces more political challenge in America than in Europe. R