

5 April 2010

TO: Members of the Tennessee Legislature

Dear Legislators,

Our understanding is that you are currently considering the governor's proposed budget.

Our organization, the Institute for Policy Innovation (IPI) is a twenty-three year old public policy research institute designed to develop and promote innovative and non-partisan solutions to today's public policy problems. IPI's focus is on approaches to governing that harness the strengths of individual liberty, limited government, and free markets.

IPI does not lobby, we do not represent clients, and we do not advocate the passage of specific legislation.

We do, however, advocate policies that stimulate economic growth. We have observed that a robust marketplace leads to innovation and benefits both producers and consumers, and markets are facilitated by allowing businesses to freely compete and to have their property rights protected, free from gratuitous regulation or arbitrary taxation.

We recognize that, unfortunately, from time to time, state and local budget realities do force legislators to consider either budget prioritization and spending decreases, or tax increases. This is the current challenge in Tennessee and a challenge faced in the current budget proposal.

In these times, one must think of a market economy like a computer simulation. In a market economy, we are constantly posing questions to the market, and getting answers in return. A few years ago the market was asked the question "Will consumers use the Internet to make airline and hotel reservations directly without going through travel agents?" And look at how that worked out—today almost everyone uses services like Orbitz or Travelocity or Kayak or Hotels.com to make their travel reservations.

But what if Tennessee had slapped a new tax on Internet travel transactions? Do you think that would have biased the outcome? Consumers would have continued to use travel agents and would not have made the move to Internet travel sites, because of the disparity caused by the unfair tax.

The point is that bad government policy would have caused the market to deliver a distorted result. The wrong answer would have been generated because of a distortion

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caused by government policy. And that's not good. We want accurate answers and accurate results from the market, unbiased by government distortions.

For Tennessee to now cause a similar distortion by saddling some video technologies with an increased tax burden would be similar—government influencing who wins and who loses the competition in the marketplace.

In addition, knowing that increased taxes suppress the uptake of the product or service taxed, especially when taxed in a discriminatory manner, it is odd to raise taxes just as the federal government is spending tens of billions in various ways to encourage the adoption of broadband.

Moreover, raising taxes during economic decline risks further exacerbating that very economic decline. By extracting a greater amount of money out of the private economy, government further constrains the amount of capital available for saving, investment and spending.

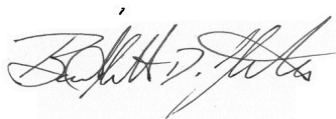
Perhaps even more troubling is to look to the individual taxpayer for a state bailout when many households are struggling to balance their own budgets and must cut spending as they have little option for requiring someone to provide them extra revenue.

While the state is combing through their tax bases, looking everywhere for that hidden pearl they could begin to tax, or tax at a higher level, what cannot be lost in that lower taxes allow Tennessee citizens to keep more of their money in their pockets, rather than their money flowing into the Tennessee tax collector's coffers. In other words, the money at issue is the money of the people of Tennessee and every tax increase hurts them directly, as it does the businesses in which they interact.

And in this case it is not as if the public is not already paying a great deal just to enjoy video programming—about \$150 million per year in taxes to the government for all cable providers in Tennessee.

We would be delighted to further share our perspective with you as you consider this legislative initiative.

Sincerely,

A handwritten signature in black ink, appearing to read "Bartlett D. Cleland". The signature is fluid and cursive, with a prominent initial "B".

Bartlett D. Cleland
Director
IPI Center for Technology Freedom