New York Senate Launches Campaign for $1 Billion Tax Cut

by Matthew Maguire

The Republican majority in the New York State Senate has launched a campaign for a package of tax cuts and tax credits it says would be valued at $1 billion when fully effective. The campaign will continue into the 2005 fiscal year because of legislative delays.

“Some critics might say it’s late in the session to be talking about tax cuts, but there is never a bad time to cut taxes,” Senate Majority Leader Joseph Bruno (R-Brunswick) said at a June 15 news conference.

Job-Threatening Liquor Tax Hike Defeated in Michigan

Bill defeated in Senate after outcry from hospitality industry

by Frank Coleman

The Michigan legislature defeated Governor Jennifer Granholm’s (D) proposed tax increase on distilled spirits products in June, averting what would have been a severe blow to Michigan’s hospitality industry, according to an economic analysis by the Distilled Spirits Council (DISCUS).

The bill was defeated in the Michigan Senate on June 17. “The Governor says the economy has shown growth for nine straight months, adding more than 1.4 million new jobs. This bill will sustain economic growth and provide incentives for America’s job creators to hire even more American workers.”

May is a significant revenue collections month, with estimated and final payments for individual income taxes due May 1,” wrote Bennett in the memo. “Total general fund revenue collections for the month increased 7.3 percent above May of 2003. Strong collections in sales and use tax, property tax, and income tax exceeded expectations.”
New Jersey Governor Signs Bill to Tax Cosmetic Surgery

Doctors see more than aesthetic flaws in legislation

by John Skorburg

On the last day of June, New Jersey Governor Jim McGreevey (D) signed into law a measure that will require patients to pay a tax on cosmetic plastic surgery procedures performed in the state.

The bill, sponsored by Sen. Wayne R. Bryant (D-Camden and Gloucester) and Rep. Joseph Cryan (D-Union), imposes a 6 percent tax on “certain cosmetic medical procedures that are directed at improving the patient’s appearance and that do not promote the proper function of the body or prevent or treat illness or disease.” Among the procedures subject to the tax are breast augmentation, facelifts, botox injections, hair transplants, dermabrasion and chemical peel, laser hair removal, and cosmetic dentistry.

Early in the morning of June 25, the New Jersey legislature agreed on a highly partisan $28 billion 2005 budget that includes nearly $2 billion in new taxes—and big spending hikes to match. The new budget is being challenged by Republicans for its borrowing of $1.9 billion to pay state bills. The fiscal conservatives have been joined by New Jersey physicians agitated by the new tax on their patients.

Unprecedented Tax

According to reporter Erica Chernofsky of FoxNews.com, the New Jersey tax will represent “the first time a tax has ever been placed on a surgical procedure in America.”

“The people of New Jersey should be very concerned about what these new laws may mean to their health in the future,” said Rod Rohrich, MD, president of the American Society of Plastic Surgeons (ASPS) in a comment to CNSNews.com on July 1. “While we understand many states are grappling with the need to resolve huge budget deficits, this law sets a dangerous precedent for lawmakers to consider taxing patients who need elective bariatric, lasik, orthopedic, or other medical procedures based on the state’s, rather than a physician’s, interpretation of ‘medical necessity.’”

ROD ROHRICH, MD, PRESIDENT AMERICAN SOCIETY OF PLASTIC SURGEONS

“While we understand many states are grappling with the need to resolve huge budget deficits, this law sets a dangerous precedent for law makers to consider taxing patients who need elective bariatric, lasik, orthopedic, or other medical procedures based on the state’s, rather than a physician’s, interpretation of ‘medical necessity.’”

Dr. Martin Moskovitz, a plastic surgeon in West Orange. Richard D’Amico, MD, a New Jersey member of the ASPS, criticized the legislation as a “selective and discriminatory tax on working, middle-class women who represent almost 90 percent of all plastic surgery procedures. These bills were introduced, passed through committees, and approved by the legislature and governor in a matter of days,” D’Amico told CNSNews.com. “The public should be troubled by the ‘back-door politics’ undertaken to get these bills passed. “They were pushed through at the eleventh hour,” continued D’Amico. “There was no chance to interface or interact with the system. There was no public debate. The patients of New Jersey have been shortchanged.”

“I think it’s awful,” said Stacy Goldberg of Hillside, who is considering having cosmetic surgery in the coming months. “I would definitely go to another state to have my surgery now.”

“I believe the comfort level of local surgeons will prevent the exodus of patients to New York and Pennsylvania,” countered Cryan, the bill’s co-sponsor.

Questions About Revenue Projections

Supporters of the tax expected it to increase state revenues by $26 million a year. DiSpaltro, however, thinks the tax will ultimately cost the state money. “As much revenue as the tax will accumulate, I think it will drive a volume of dollars out of the state, and put New Jersey at a disadvantage,” he said.

“In every procedure there is some element that is reconstructive and some that is cosmetic, and the logistics of deciding that proportion will be very difficult,” continued DiSpaltro. “Where do you draw the line?”

John Skorburg is managing editor of Budget & Tax News. His email address is skorburg@heartland.org.
South Carolina Legislature

“Porker of the Month” for June 2004

by Tom Finnigan

The taxpayers’ advocacy organization Citizens Against Government Waste (CAGW) named the South Carolina legislature “Porker of the Month” on June 8 for overriding almost every one of Governor Mark Sanford’s (R) 106 recent budget vetoes.

In his “veto press release” on May 26, Sanford had praised the legislature. “We outlined a number of specific goals in our executive budget, and many of those goals the General Assembly met,” he said. “I think that speaks volumes about the willingness of many in the General Assembly to work with us in moving South Carolina several steps down the road toward fiscal discipline.”

Then the situation got a bit dirty. After Sanford vetoed almost $36 million of a $5.5 billion fiscal 2005 budget, the Republican-controlled legislature breezed through 105 overrides in the House chamber carrying two pigs, named “Pork” and “Barrel,” infuriating lawmakers. The mess made by the pigs, however, was nothing when compared to the chaos caused by the legislature’s overrides of the governor’s vetoes.

After the House kicked the budget back to Sanford, he vetoed another $16.2 million in appropriations, saying the surplus funds should be used to pay off the remaining portion of the state’s unconstitutional $155 million deficit carried over from fiscal 2002. Sanford also vetoed some appropriations that relied on $90 million in anticipated surplus funds that may not be collected.

Among the 106 items vetoed by Sanford were $5 million for Hunting Island Beach Renourishment and $500,000 for equipment for a Florence-Darlington Technical School building that has not been built or even funded. Also vetoed were $380,000 for a stadium expansion to accommodate a Palmetto Bowl Football Game, $250,000 for the Freedom Weekend Aloft balloon festival, $40,000 for an early retirement payout to a single state employee, and $26,000 for the Senior Citizens Sports Classic.

Bipartisan Firestorm from Legislature

The piggies provoked a bipartisan firestorm from many in the legislature. House Speaker David Wilkins (R) called Sanford’s act “insulting” and “childish,” saying it was “beneath the dignity of the governor.”

“It’s ironic that a harmless joke is called ‘insulting’ but reckless spending is considered respectable,” countered CAGW President Tom Schatz.

Sanford served in the U.S. House of Representatives from 1995 to 2003, earning “Taxpayer Superhero” status and the top ranking in Congress by CAGW. He campaigned for governor on a platform aimed at bringing his vision of efficiency, cost-saving, growth-friendly government to his home state.

Sanford’s reform efforts, however, have often been thwarted by legislators who are protective of the status quo. “He deserves congratulations, not condemnation, for his bold demonstration of concern for South Carolina’s taxpayers,” said Schatz. “In fact, CAGW may have inspired his actions, as each year the group releases its annual Congressional Pig Book at a press conference complete with live pigs.

“For placing higher importance on pork projects than the state’s tax and deficit burdens, for reflexively overriding the governor’s budget vetoes, and for squealing when Gov. Sanford called them out with a light-hearted jab, CAGW names the South Carolina legislature its ‘Porker of the Month’ for June 2004.”

TOM SCHATZ, PRESIDENT
CITIZENS AGAINST GOVERNMENT WASTE

Lawmakers squeal after governor’s clever jab

“...for placing higher importance on pork projects than the state’s tax and deficit burdens, for reflexively overriding the governor’s budget vetoes, and for squealing when Gov. Sanford called them out with a light-hearted jab, CAGW names the South Carolina legislature its ‘Porker of the Month’ for June 2004.”

South Carolina Legislature

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TOM SCHATZ, PRESIDENT
CITIZENS AGAINST GOVERNMENT WASTE

Tax Cut Forces Take Raleigh by Storm

by Rob Jordan

Taxpayers and grassroots activists from across North Carolina converged on the state capitol on May 27 to lobby their legislators for lower taxes and less government intervention in their lives.

“Days at the Capitol” have become a tradition in North Carolina. According to organizers of the rally, was to attract major media attention. The event, more than 500 volunteer activists came together to demonstrate their support for the low tax, less government agenda, making this year’s event the largest and most successful ever.

CSE Chairman Dick Armey was present at the event to “rally the troops” and talk about the upcoming 2004 elections. Specifically, Armey discussed making several issues a part of the presidential and other key congressional races. He stressed the importance of grassroots organizing to bring key issues—like scrapping the current tax code and reforming Social Security with Personal Retirement Accounts (PRAs)—to the forefront of the political debate.

“We need to build a strong grassroots team because of the vicious attacks we’re already facing from the big tax and spenders,” wrote Armey in a recent grassroots campaign letter. “Remember that our opponents are well funded by liberal groups statewide.

“During my time in Congress,” Armey wrote, “I fought for lower taxes and less government. However, while serving as the Majority Leader, I came to recognize that it is basic citizen participation that is the most important factor in limiting government intrusion into our lives. All commitment to the taxpayers of North Carolina that no new taxes—including tax and fee increases—will be imposed.

“While signers enjoy the support of more than 23,000 no-tax members in the state, any pledge breakers will be taken to task by the grassroots, and have faced serious political consequences in the past,” said outgoing CSE President Paul Beckner.

Forced annexation, where a community is forced to join an existing city or town and automatically hit with increased fees and new taxes, was another key issue that activists spent much of their day discussing with legislators.

CSE’s “Days at the Capitol” activities attracted major media attention. The Raleigh News and Observer, Cary News, television stations WRAL, NBC17, WTVD, WB-22, and News 14 Carolina, and radio station WPTF covered the day’s events.

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New York
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conference touting the plan. “With our package we’re helping small high-tech and biotech firms stay and grow in New York and create new jobs,” Bruno said. “We’re helping small businesses afford the cost of providing health insurance to their employees. We’re helping families that have to take care of elderly loved ones in their home. As we move forward on a new budget, we will work to see that it includes these tax cut provisions.”

No Budget in Place
The 2004 legislative session ended on June 23 with no agreement on a state budget, which under provisions of the state constitution should have been in place by April 1, and no major action on any of the top priorities of New York’s business community. The Senate concluded business a day early, a day legislative leaders had set many months ago for the close of the session.

The Senate’s tax cut package would provide a small business health insurance tax credit, a new research and development tax credit for companies in high technology or the life sciences, and new tax credits for the film and television industry in New York City.

The Senate majority has estimated there are about 400 firms in New York eligible for the credit. The tax cut package would save them some $56 million in fiscal year 2004-05, and about $1 billion when fully phased in, a news release issued by the Senate majority said.

“We’re pleased the Senate is considering ways to help New York businesses, and the effort to make health insurance more affordable for our smallest businesses is especially welcome,” said Daniel B. Walsh, president of the Business Council of New York State.

“As the Senate pursues this worthy agenda, Walsh continued, “we hope they and their colleagues in the Assembly will also focus attention on additional measures that are absolutely necessary to cut New York’s already high costs of job creation. Lawmakers absolutely must reduce our state and local tax burden, and the costs of workers’ compensation, energy, and health insurance for all employers and all New Yorkers.”

Help for Venture Capital, Small Business
The Senate proposal also includes an investor program designed to encourage venture capital companies to invest in enterprises through Excell-NY, a proposed economic development program that would focus on large-scale manufacturers with a research and development focus. According to the Senate release, the program would allocate $200 million in investment funds and provide companies with tax savings of $20 million a year beginning in 2005.

The health insurance tax credit is designed to encourage more small businesses to provide health insurance for their employees. The Senate plan would provide a tax credit of 50 percent of the cost of insurance premiums to companies with 50 or fewer employees and earned net income of $290,000 or less, which is how state tax law defines a small business.

“Some critics might say it’s late in the session to be talking about tax cuts, but there is never a bad time to cut taxes. ... As we move forward on a new budget, we will work to see that it includes these tax cut provisions.”

NEW YORK STATE SENATOR JOSEPH BRUNO (R-BRUSSICK)

The Senate tax plan also includes the following:

- A 10 percent tax credit for production costs of new film and television series produced in New York state.
- A 20 cents-per-gallon tax incentive for New York’s biofuel production facilities.
- The tax incentive will save biofuel customers $20 million a year by fiscal year 2007-08.
- A plan to eliminate taxes on aviation fuel used after planes take off. The Senate plan also proposes the elimination of taxes on all kero-jet fuel and aviation fuel by next year, with an estimated savings to the aviation industry of $85 million.
- Elimination of the alternative minimum tax for farms. The plan also would refund the investment tax credit, to provide $2 million in capital for New York farmers.
- A 15 to 25 percent tax credit to provide taxpayers and homeowners with an economic incentive to purchase and rehabilitate a historic home.
- A sales tax exemption on the value of coupons. Consumers are currently taxed for the full cost of the item purchased, despite any coupons used. This exemption is expected to save consumers $15 million.
- An investment tax credit to textile manufacturers for investing capital in New York state.
- A sales tax exemption for the service of inflating tires from coin-operated machines.

Before closing their 2004 session, New York state legislators passed a temporary spending plan to get the state through August 1, when they will take up the budget again. They also passed a measure aimed at ensuring on-time budgets in the future.

Matthew Maguire is director of communications for the Business Council of New York State. His email address is matthew.maguire@bcnys.org.

Texas Comptroller Calls for End to Discriminatory Federal Tax Rule

by Mark Sanders

T

exas is one of only seven states with a state income tax. According to the state’s comptroller, that places Texans at a disadvantage when paying federal income taxes. On June 28, Comptroller Carole Keeton Strayhorn (R) called for “a halt to the discriminatory treatment of Texas taxpayers.”

In March 2002, Strayhorn released a report on the discriminatory treatment of Texas taxpayers by the federal government. That report, “Restoration of the IRS Sales Tax Deduction Should be One of Texas’ Main Priorities in Congress,” was recently updated.

Strayhorn’s study shows Texas families and the state’s economy will benefit if state and local sales taxes, along with motor vehicle sales taxes, are made deductible on federal income tax returns.

According to Strayhorn, federal tax deductibility of state and local sales taxes would put an extra $310 million into the pockets of the average Texas family.

Current System Unfair
“Citizens in Texas and six other states are denied fair and equitable tax treatment because they have no state income tax,” Strayhorn said. “Two years ago, I urged the state’s congressional delegation to fight for the restoration of Internal Revenue Service state and local sales tax deductions for Texas families. I am pleased that [HR 4520] will allow this deduction.

“The current system is unfair,” Strayhorn said. “It discriminates against Texans and the citizens of other states who have decided against a state income tax. As a result, Texans pay a higher percentage of taxes to the federal government than their neighbors in Oklahoma and Arkansas, which have a state income tax. That’s wrong.

“An Oklahoman who pays a state income tax can deduct that amount from her or his federal tax return. But the antiquated federal law punishes those of us who pay state and local sales taxes rather than state income taxes,” Strayhorn said. “If Texas taxpayers could deduct sales taxes and motor vehicle sales taxes, the playing field would be level,” she added.

Change Would Create Jobs
A Texas family of four with a median annual income of $57,945 could potentially get an additional tax deduction of $928. Estimates from the comptroller’s report indicate the net tax savings would also generate 16,573 new jobs in Texas and $923 million in increased Gross State Product in 2005.

Because Texas taxpayers would have more money to spend on their families’ priorities, Texas’ state sales tax receipts for 2005-06 could be expected to increase by almost $8 million. Strayhorn’s report estimates, while the cost to the federal government would be less than 1 percent of the cost of existing deductions.

“This will be a win for Texas taxpayers and Texas government and a win for tax fairness. I urge Congress to quickly adopt legislation that will put hard-earned money back in the pockets of hard-working Texas families,” Strayhorn said.

The states that currently have no state income tax are Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. Two others, New Hampshire and Tennessee, tax only dividend and interest income.

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INTERNET INFO
Texas Comptroller Carole Keeton Strayhorn’s report, “Restoration of the IRS Sales Tax Deduction Should be One of Texas’ Main Priorities in Congress,” is available online at http://www.window.state.tx.us/specialrpt/deduction04/.
Reforms
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“In addition to repealing the export subsidies, the legislation provides a net $34 billion tax cut over 10 years by cutting the corporate tax rate, extending small business expensing, allowing states with no state income tax to deduct their sales tax from federal taxes, and most importantly allowing companies to reinvest their foreign profits back into America at a lower tax rate,” said Jonathan Collegio of Americans for Tax Reform (ATR). “The latter provision alone will generate $400 billion of new investment and create 500,000 new jobs over the next two years.

“Additionally, passage of the legislation starts the process for the Congress to pass, and President Bush to sign into law, the nation’s fourth tax cut in as many years,” noted Collegio. Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001, the Jobs Creation and Worker Assistance Act in 2002, and the Jobs and Growth Tax Relief Reconciliation Act in 2003.

Bipartisan Support
A press release from Majority Whip Roy Blunt (R-Missouri) praised the bipartisan support for HR 4520, which passed by a vote of 251 to 178. “The economy has shown growth for nine straight months, adding more than 1.4 million new jobs,” wrote Blunt. “This bill will sustain economic growth and provide incentives for America’s job creators to hire even more American workers.”

Added Blunt, “Currently, American companies and workers are at a competitive disadvantage. Reducing taxes on businesses of all sizes and eliminating these unfair penalties will help American manufacturers and farmers invest more in expanding operations and creating new jobs.”

In a written statement, House Majority Leader Tom DeLay (R-Texas) said the new provisions in HR 4520 “will create more jobs and opportunities for the American people, support our obligations to the World Trade Organization, and restore fairness to the tax code by reinstating the state sales tax deduction.”

House Majority Leader Tom Delay (R-Texas)

American Jobs Creation Act will “create more jobs and opportunities for the American people, support our obligations to the World Trade Organization, and restore fairness to the tax code by reinstating the state sales tax deduction. “This bill will keep American jobs in America,” DeLay said. “It will encourage companies to manufacture more goods and keep more jobs in the United States while maintaining the global competitiveness of the American economy. The American Jobs Creation Act is another important step on the way to our goal of doubling the economy in the next 15 years.”

Farmers to Benefit
Farmers will also benefit from new business tax provisions included in the act. According to the Iowa Farm Bureau, “the bill includes a two-year extension of small business expensing benefits set to expire after 2005, clarifies that farm income average does not trigger the Alternative Minimum Tax, and extends the replacement period for cattle sold because of natural disasters.”

Rep. Mac Collins (R-Georgia) said there is good news in the legislation for America’s tobacco growers and manufacturers as well. “Don’t you just love it when a plan begins to come together,” Collins told a Capitol Hill press conference after the vote. “Today we saw something on the floor of the House that we haven’t seen since I have been here, that is both sides of the aisle competing for who had the best tax relief bill.

“The tobacco quota system has been drastically hurt because of domestic content and imports,” said Collins. “We [just] passed the beginning of a plan to end the quota system. This legislation will totally rid American farmers and manufacturers of the tobacco quota system and will allow them to compete in a free and open market that will be free of government price controls, production limits, and guarantees.”

The legislation allows for a $9.6 billion “buy-out” of the quota for tobacco growers in order to end the antiquated tobacco quota program.

While Collins was happy with the legislation’s corporate tax reduction, he insisted rates must be cut further in order to generate jobs and improve the American economy. “Such tax relief is clearly needed. For some time now, to remain competitive in the global marketplace, our trading partners have been reducing tax rates on the businesses that employ their workers. Many countries, including Australia, Canada, France, Germany, Japan, Poland, and Turkey, have cut their corporate tax rates drastically—some by 10 percent or more,” Collins said.

IT Benefits
“This vote represents an important victory for the American economy, consumers, and businesses,” Rhett Dawson, president of the Information Technology Industry Council, said in a statement. “The American Jobs Creation Act and the strong provisions it includes will boost job creation, spur economic growth and expansion, and help promote the global competitiveness of U.S. IT companies.”

The Senate passed its version of the bill on May 11, 2004. The Bush administration has indicated that passage of the bill, after the two versions are reconciled by a House-Senate conference committee, is a top priority.

John Skorburg is managing editor of Budget & Tax News. His email address is skorburg@heartland.org.

AFSCME, Tennesseans Back State Income Tax Deduction
by John Skorburg

The national union of state and local government employees has endorsed the proposed deductibility of state sales taxes at the federal level.

In a June 16 letter to representatives in the U.S. House, Charles M. Loveless, director of legislation for the American Federation of State, County, and Municipal Employees (AFSCME), wrote, “We strongly support a provision in the legislation (HR 4520) providing for deductibility of state sales taxes. “Our Union strongly supports the deductibility of state income and sales taxes,” the letter continued. “States, cities, and counties are an integral part of our federal system of government. Americans depend upon state and local governments to provide vital public services, and it is extremely important for state and local taxes to be deductible on federal income tax returns,” Loveless wrote.

AFSCME has not endorsed HR 4520, however, because it disapproves of other provisions.

Tennessean to Benefit
According to a June 29 report in The Tennessee, a Congressional Research Service analysis estimated Tennesseans would save up to $472 million on their 2004 income taxes if deductibility of state and local sales taxes is authorized. Tennessee Deputy Revenue Commissioner Reagan Farr said the state economy will feel the effects if the measure becomes law. “Any time you pump an extra $200 to $300 million into the state economy, there’s going to be some net positive impact,” Farr said.

“This is a matter of simple fairness since citizens in other states are allowed to deduct their state income tax payments.”

Senator Lamar Alexander (R-Tennessee)

Senator Lamar Alexander (R-Tennessee) has promised to lobby for final passage of HR 4520. “This is a matter of simple fairness since citizens in other states are allowed to deduct their state income tax payments,” Alexander said.

John Skorburg is managing editor of Budget & Tax News. His email address is skorburg@heartland.org.

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Kansas Taxpayer Group Praises Pro-Growth, Anti-Tax Legislators

Fiscal ratings now available for 2004 session

by George Petersen

The Kansas Taxpayers Network (KTN) released its 2004 fiscal ratings for the Kansas legislature on June 28. This is the ninth year the Wichita-based taxpayers’ organization has evaluated votes cast by state legislators on fiscal matters.

The Kansas legislature recently ended its 2004 session, without increasing taxes. There will be no fall session, unless the governor calls a special session.

“Taxpayers are relieved that the governor’s proposed tax hike was rejected,” said Karl Peterjohn, KTN’s executive director. “We cannot afford higher property; income, and sales taxes in Kansas after all of the tax hikes passed in this state during the last few years.”

“This state’s economy is struggling to join the national economic recovery,” said Peterjohn, “because of increases in property tax appraisals and income bracket creep that occur automatically in this state, because of the new local use tax on business that was created last year, because of higher sales, business franchise, gasoline, and cigarette taxes that were passed in Kansas in 2002.”

Three legislatures achieved top scores of 100 percent on KTN’s 2004 rating. Senators Tim Huelskamp (R-Meade) and Ed Pugh (R-Wamego) joined Representative Mary Kauffman (R-Hutchinson) with the top scores.

Both Parties Reversed Course

Three legislators achieved top scores of 100 percent on KTN’s 2004 rating. Senators Tim Huelskamp (R-Meade) and Ed Pugh (R-Wamego) joined Representative Mary Kauffman (R-Hutchinson) with the top scores.

The highest lifetime scores among Democrats in the senate are those of Henry Helgerson (D-Wichita), 64.8 percent; David Haley (D-Kansas City), 56.0 percent; and Mark Gilstrap (D-Kansas City), 49.9 percent. In the house, the highest lifetime scores for Democrats are those of R.J. Wilson (D-Pittsburg), 62.4 percent; Tom Burroughs (D-Kansas City), 56.4 percent, and Valdenia Winn (D-Kansas City), 52.9 percent.

Most Legislators Not Taxpayer-Friendly

KTN ranks as “taxpayer friendly” all legislators scoring 75 percent and higher each year. In 2004, 10 senators and 42 house members achieved that score. Those figures are well below a majority for both houses of the Kansas legislature.

At the low end of KTN’s grading scale, three senate Republicans, one senate Democrat, and three house Democrats scored zero in the 2004 vote rating, failing to support any pro-taxpayer position on the fiscal scorecard.

Pennsylvania Voters Want Property Tax Reform; Legislators Ignore Them

by Grant R. Guilbon

While legislators were in Harrisburg debating property tax relief and the current year budget, which should have been passed by July 1, a new poll from Triad Strategies found Pennsylvanians want voter approval of property tax increases.

Eighty-six percent of respondents to the poll supported giving taxpayers greater control over future property tax increases. Only 9 percent favored leaving the current property tax powers of local school boards unchanged.

“This poll confirms what policymakers have known for years,” said Matthew J. Brouillette, president of the Harrisburg-based Commonwealth Foundation. “Pennsylvanians want the same protections that citizens in an overwhelming majority of other states have. They want the power to approve or veto future school property tax increases.”

The Triad Strategies poll, conducted by Susquehanna Polling and Research, found that most Pennsylvanians strongly favor giving homeowners some protections against the taxing authority of school boards. Voters support measures even more restrictive than those being discussed in the General Assembly.

According to the poll, more than 62 percent of respondents want the General Assembly to “require the approval of voters for any future property tax increase.” Most proposals under consideration in Harrisburg would allow for tax increases up to a certain level (such as the increase in the statewide average weekly wage) without voter approval.

“Granting such taxation leeway virtually guarantees that school boards will increase taxes every year up to the limit,” said Brouillette. “The only way to protect homeowners from being taxed out of their homes is by subjecting any and all tax increases to a vote of the people who will be required to pay the district’s higher bills.”

Government Diluting Voters’ Power

Governor Ed Rendell (D) and some members of the General Assembly want to limit the spending measures taxpayers will be able to control at the ballot box. Brouillette said that granting any exemptions to school boards or allowing them to increase any taxes without voter approval will fail to provide taxpayers with the protections they need and clearly want.

“The overwhelming support of citizens for substantive control over future school property tax increases should cause policymakers to refrain from trying to water down or restrict the voting power of taxpayers,” said Brouillette. “It is time policymakers put the people’s interests first—instead of the special interests—by giving taxpayers real protections against school boards willing to destroy the American Dream of homeownership.”

Grant R. Guilbon in senior policy analyst at The Commonwealth Foundation, a public policy research and educational institute based in Harrisburg, Pennsylvania. His email address is Info@CommonwealthFoundation.org.
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* Source: Bureau of the Public Debt, U.S. Department of the Treasury

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BTN8/04
Taxpayer's Bill of Rights Faces Fine-Tuning in Colorado

by John Skorburg

A tug of war is underway in Colorado pitting the Taxpayer's Bill of Rights (TABOR) against state spending on education. Many analysts are pulling hard for TABOR, touting its virtues and urging state policymakers to keep the spending limitation bill in place.

“During the 1990s, Colorado’s Taxpayer’s Bill of Rights (TABOR) was America’s most successful spending limit,” said Michael New, an adjunct scholar at the Cato Institute.

“However, recent fiscal shortfalls have put pressure on the limit,” New noted. “Legislators are currently trying to weaken the limit by employing a strategy that was used to undermine California’s own spending limit during the early 1990s. Colorado residents should take notice, because California’s subsequent fiscal nightmare reveals the perils of weakening effective fiscal limits.”

According to New, the dynamics have changed in recent years. “In 2000, the education lobby succeeded in passing Amendment 23. This law established a constitutional mandate for education spending. It required that education spending increase faster than TABOR’s expenditure limit. This means that, over time, a progressively larger share of Colorado’s budget would have to be devoted to education.”

The conflict between TABOR and Amendment 23 has come to a head. “Shortly after Amendment 23 was enacted,” said New, “Colorado, like many other states, encountered a budgetary shortfall. During the budget crunch, these education spending mandates resulted in some unpopular spending reductions elsewhere. This has sparked intensive efforts to reform TABOR [now].”

New concluded, “Now, most legislators dislike tight fiscal limits. Colorado legislators have proven to be no exception. They have repeatedly tried to enact initiatives that would allow them to spend in excess of the TABOR limit. While some efforts to relax the TABOR limits at the local level have been successful, TABOR opponents have enjoyed little success in statewide elections.”

Scholars Agree on Value of Limits

Jon Caldara, president of the Golden, Colorado-based Independence Institute, wrote in the April 25 issue of the Denver Post, “To hear the chorus of tiny little violins and their grating, one-note symphony of ‘TABOR Must Be Changed,’ you’d think that Colorado’s Taxpayer’s Bill of Rights causes acne.

“But no matter how well-financed and well-publicized their whining is,” Caldara continued, “it will be a hard sell persuading Coloradans to alter the nation’s most successful tax and expenditure limitation law.

“We have seen TABOR return around $800 of surplus tax revenue to every man, woman, and child. That’s $3,200 per family of four. We also have seen TABOR save Colorado’s fiscal fanny,” he continued.

“During the [late 1990s],” Caldara noted, “excess tax revenue in Colorado was returned to taxpayers. In other states, like California, the excess tax money went into expanding government budgets. So when Colorado residents should take notice, because California’s subsequent fiscal nightmare reveals the perils of weakening effective fiscal limits.”

Michael New, Adjunct Scholar
CATO INSTITUTE

“[Colorado] legislators are currently trying to weaken the limit by employing a strategy that was used to undermine California’s own spending limit during the early 1990s. Colorado residents should take notice, because California’s subsequent fiscal nightmare reveals the perils of weakening effective fiscal limits.”

Concerns over “Ratchet Effect”

“TABOR was enacted in 1992 but was not triggered until 1997,” said University of Colorado Professor Barry Poulson. “Over the following three years TABOR generated $3.25 billion in surplus revenue that was returned to taxpayers in tax rebates and tax cuts.

“Since 2000, actual revenues have been below the TABOR limit,” Poulson noted, “so it has not been a binding constraint on revenue and spending. Colorado relies heavily on the income tax, so income tax revenues tend to increase more rapidly than income in periods of expansion and contract more than income in periods of recession. The flaw in TABOR that we are currently addressing is the ratchet-down effect. A variety of factors influence the federal dollars received by the state; TABOR has had little impact on those funds.”

“You’re going to hear a lot of yapping in the coming months about the so-called ratchet effect of TABOR, that spending levels will never be allowed to reach the higher, pre-recession levels,” said Caldara. But of course they can, and within the existing TABOR law. All the state has to do is to keep that excess money—is—now get ready for this—ask us for permission.

“But lawmakers here are hobbled in their efforts to set priorities because Amendment 23 locks in the largest line item,” said Caldara. “Even in times of recession, Amendment 23 requires K-12 education spending to increase above the rate of inflation, without any way to fund it except cutting other budgets like higher education.”

“It’s interesting that Amendment 23’s authors originally planned to include a large tax increase to pay for their spending mandate but pulled it when their polling showed it wouldn’t pass,” Caldara noted. “So instead, they promised that Amendment 23 would work within the limits of TABOR, which had been on the books for years.

“So now they’re trying to blame TABOR and get you to vote away all your future tax refunds instead of addressing the real budget mess they made with Amendment 23.”

Lew Uhler, president of the National Tax Limitation Committee, places TABOR in perspective. “TABOR has been boons to Colorado, helping to spur its economy while returning $3.25 billion to taxpayers over the last several years. TABOR is not perfect, so some modifications may be justified.”

Caldara disagreed. “In the decade since TABOR’s passage in 1992, the size of state government has grown by a whopping 64 percent,” he wrote. “Government is hardly withering away. “Don’t buy the snake oil again,” he urged. “Leave TABOR alone.”

John Skorburg is managing editor of Budget & Tax News. His email address is skorburg@heartland.org.
Oklahoma Taxpayers Are Fiscal Conservatives, Poll Says

by John Skorburg

On June 1, the Oklahoma Council of Public Affairs (OCPA) released the results of its most recent survey of 400 Oklahoma voters. The majority surveyed called themselves conservative, desired a smaller state government, and would rather see budget cuts than tax increases when facing a state budget deficit.

The survey also showed Oklahoma taxpayers would like some type of “tax limitation” law and elimination of estate taxes.

“The survey of 400 registered Oklahomans conducted May 10-12 showed that nearly 70 percent of Oklahomans consider themselves conservative, and it revealed a majority of Oklahomans want pro-growth tax cuts, workers’ compensation reform, and school choice [not bigger government],” noted the OCPA news release summarizing the survey results.

Many of the issues raised by taxpayers in the survey are not being addressed by the state legislature, OCPA noted. “As the second session of the 49th Oklahoma Legislature ends, Oklahoma conservatives do not have much to cheer about. [...] That means a majority of Oklahomans do not either.”

Oklahoma Governor Brad Henry (R) signed a $5.3 billion spending bill for the fiscal year that began July 1, but the revenue side of the budget remains unsettled. The governor has proposed a package of tax hikes as well as tax cuts, but no action has been taken on that plan or any other.

**Big No to Big Government**

Only 16 percent of respondents to the OCPA survey thought state policymakers should raise taxes to address budget shortfalls. Fully 73 percent preferred spending cuts, with 11 percent undecided.

State policymakers, however, have tended to prefer spending increases rather than cuts. “Unfortunately, over the years governors and legislators have usually chosen to add new programs to the state budget without considering the merits of existing programs and finding ways to fund higher-priority items by eliminating lower-priority items,” notes OCPA.

“As a result, the budget has grown by leaps and bounds. Until state leaders learn to exercise fiscal discipline, or until the people write fiscal discipline into the constitution with an expenditure limit (such as a Taxpayers’ Bill of Rights), the budget will continue to expand during years of normal or superlative revenue growth, creating strong pressure on state lawmakers to raise taxes in tight years.”

**Government Growth Outstripping Inflation**

“Most people would agree that state government growth should keep up with population growth and inflation. That is a reasonable benchmark,” says OCPA. “But looking back over the last 15 years, we see that state government growth has exceeded that benchmark. Regardless of which measuring device we use—appropriations, total state tax collections, or total government collections—government growth outpaces population growth and inflation.”

John Skorburg is managing editor of Budget & Tax News. His email address is skorburg@heartland.org.

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**What Oklahoma Voters Want**

**In politics today, do you consider yourself to be a conservative or a liberal?**

- Strongly Liberal: 5%
- Somewhat Liberal: 11%
- Moderate: 10%
- Somewhat Conservative: 29%
- Strongly Conservative: 40%
- Do not know: 6%

**If Oklahoma state government is again faced with a budget shortfall, do you think the state should:**

- Cut spending: 73%
- Raise taxes: 16%
- Undecided: 11%

**Which would you rather see in Oklahoma?**

- A larger government with many services: 20%
- A smaller government with fewer services: 62%
- Undecided: 18%

**Thinking about state government spending in Oklahoma, how fast do you think state government spending should grow in comparison to the growth of average family income?**

- Faster: 6%
- About the same rate: 55%
- Slower: 33%
- Undecided: 6%

**Do you favor or oppose repealing the death, or estate, tax in Oklahoma?**

- Strongly favor: 44%
- Somewhat favor: 17%
- Somewhat oppose: 13%
- Strongly oppose: 14%
- Undecided (vol.)*: 13%

**It has been proposed that Oklahoma adopt an amendment to our state constitution that would restrict the rate of growth in government spending to no more than the rate of population growth. Would you favor or oppose such an amendment?**

- Strongly favor: 39%
- Somewhat favor: 35%
- Somewhat oppose: 8%
- Strongly oppose: 10%
- Undecided (vol.)*: 9%

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From a survey by the Oklahoma Council of Public Affairs, released June 1. Reprinted with permission.

* Polled voters gave (volunteered) the answer of “Undecided.”
Ronald Reagan’s Fight Against Inflation

by Bruce Bartlett

One of the amusing things about the media is their compulsion always to present an alternative perspective to conservative successes, even when they look ridiculous doing so. Only liberal successes are allowed to be presented without some reporter saying, “On the other hand…” Thus reports of Ronald Reagan’s accomplishments are always accompanied by boilerplate statements about his alleged failures, whether his inability to cure AIDS, the Iran-Contra scandal, or something else.

Even conservatives sometimes fall victim to this compulsion. Two areas where this often occurs are on inflation and the deficit. It is said that Paul Volcker, chairman of the Federal Reserve Board, deserves all the credit for eliminating inflation, with Reagan as some kind of passive observer. It is also said that large budget deficits prove Reagan’s economic policy was a failure. Both of these perspectives are seriously misinformed.

It is true inflation fundamentally is a monetary phenomenon. The inflation of the 1970s came about primarily because Fed Chairman Arthur Burns ginned the money supply to get Richard Nixon re-elected in 1972. Burns was followed by G. William Miller, appointed by Jimmy Carter, who didn’t have a clue about monetary policy and made the dismal inflation situation he inherited far worse.

Volcker Takes Over
The Consumer Price Index increased 4.9 percent from December 1975 to December 1976, the year Carter was elected. It then increased by 6.7 percent in 1977, 9 percent in 1978, and 13.3 percent in 1979. At this point, Carter realized he had made a serious error in appointing Miller to the Fed. But Miller could not be fired, so he had to be induced to leave voluntarily. Carter fired Treasury Secretary W. Michael Blumenthal, who had been doing a fine job, in order to open the position for Miller, who left the Fed to replace Blumenthal.

Under pressure from Wall Street, Carter reluctantly appointed Paul Volcker to be Fed chairman in 1979. Volcker had been undersecretary of the treasury under Richard Nixon and was serving as president of the Federal Reserve Bank of New York. It is naïve to think Carter gave Volcker a free hand. Volcker’s inability to fully implement a tight money policy is why the inflation rate fell only to 12.5 percent in 1980, despite a sharp recession that year. It was only after the election, when Volcker knew Carter had lost, that he really clamped down on the money supply. This illustrates an important point: Presidents get the Fed policy they want, no matter how “independent” the Fed may be. If there had been any doubt about this, it was settled in 1967, when Fed Chairman William McChesney Martin buckled under pressure from Lyndon Johnson and eased monetary policy even though Martin knew he should be tightening. This caused inflation to jump from 3 percent in 1967 to 4.7 percent in 1968 and 6.2 percent in 1969.

Reagan Institutes Own Policies
Few people now remember how much pressure there was on Reagan to get rid of Volcker and have the Fed run a more accommodative monetary policy. Yet Reagan not only supported Volcker publicly, he appointed like-minded people to the Fed whenever he had the chance. He reappointed Volcker to the chairmanship in 1983 and appointed Alan Greenspan to replace him in 1987.

The result of the Fed’s tight money policy was a far faster reduction in inflation than most economists would have considered possible. From 12.5 percent in 1980, inflation fell to 8.9 percent in 1981 and 3.8 percent in 1982. It is difficult to explain just how remarkable this achievement was. Most economists would have considered it impossible in 1980, especially given the big 1981 tax cut, which economists schooled in Keynesian economics generally viewed as pouring gasoline on the fires of inflation.

But Reagan was firm in his belief that the money supply—only the money supply—fundamentally determined the inflation rate. However, he also knew other policies could ease the transition to a low-inflation economy. Toward this end, Reagan cut tax rates and reduced business regulation to increase the production of goods and services; deregulated the price of oil, which broke the OPEC oil cartel; and fired striking air traffic controllers, which helped get the wage-price spiral under control.

Ironically, the far greater success in bringing down inflation is what really created the deficit problem. It eliminated bracket creep that caused revenues to rise automatically as inflation pushed people into higher tax brackets. This factor alone added $41 billion to the deficit in 1981 and $64 billion in 1982, according to Office of Management and Budget figures. Breaking the back of inflation was an enormous accomplishment. Reagan deserves much of the credit. Larger budget deficits were an unavoidable consequence.

Bruce Bartlett is a senior fellow at the National Center for Policy Analysis. His email address is bartlettb@cox.net.

Think Tank Presents Reagan’s

by Khris Bershers

Although America has had 43 presidents so far, only a handful can be rightfully claimed to have an “age” or “era” named after them: Jefferson, Jackson, Franklin D. Roosevelt, and now, Ronald Reagan.

The death of the 40th president means a world leader, president, governor, and great American is gone from our midst. But his words and ideas live on at www.heritage.org, the Web site of his “favorite think tank,” The Heritage Foundation. Links on the site offer a wealth of useful information for journalists, scholars, and others interested in the former president and how he shaped our world.

The site offers transcripts of every major speech Reagan gave, from 1964’s classic “A Time for Choosing” to 1982’s “Evil Empire” speech to his “Tear down this wall” speech in 1987 Berlin. The site also offers Reagan’s 1981 and 1985 inaugural addresses and all of his State of the Union speeches.

In addition are many recollections of Reagan, in which friends, historians, and political aides recall what he meant to them. Among the more than a dozen contributors to the “Remembering Reagan” section are his vice president, George H.W. Bush; his secretary of state, George P. Schultz; and
Ronald Reagan and the Privatization Revolution

by Robert W. Poole, Jr.

Ronald Reagan was a great president. He stood up for the ideas of limited government, free trade, and free markets, and the rollback of communism.

Reagan is often associated with the global privatization revolution that took off during the 1980s, but that is largely a misconception. While he was generally positive about privatization, he viewed it mostly as a remedy for what was wrong with socialist countries, not as a key pillar of economic reform in the United States.

It was Margaret Thatcher, Reagan’s friend and staunchest ally, who launched the privatization wave that was to lead to the shift of more than a trillion dollars’ worth of state-owned enterprises to investors during the ‘80s and ‘90s. Reagan was mostly an onlooker and cheerleader.

I speak from experience, having advised the Reagan White House on several privatization-related issues during his two terms in office. In one of his early victories, Reagan fired thousands of air traffic controllers who’d gone on strike illegally.

Some Effort, Limited Results

The White House brought me to Washington to advise on how best to rebuild the system. Drawing on recent research on the private origins of the U.S. air traffic control system, I gave several briefings on the idea of a nonprofit user-owned corporation that could raise funds in the capital markets and operate like a business, outside the constraints of civil service. But when then-RAA Administrator Lynn Helms raised vigorously against the idea, that was the end of that.

Several years later I was again called to the Old Executive Office Building, this time to help brainstorm ideas for privatizing the U.S. Postal Service. It was exciting to know that people in the White House Office of Policy Development were actually thinking such thoughts. But again, my eloquent proved to be short-lived. Apparently the quiet trial balloons the White House floated got enough negative reactions that the idea went nowhere.

As Reagan’s second term began, however, concerns about the mounting budget deficit led to greater interest in the possibility of a federal privatization effort along the lines of Thatcher’s. The idea being to sell billions of dollars’ worth of federal assets and enterprises to investors, using the proceeds to pay down the national debt.

I helped the Office of Policy Development organize a two-day brainstorming conference on the subject at Wye Plantation in Maryland, where the UK experience was reviewed, possible privatization candidates assessed, and possible next steps debated. That led to creation of an interagency Privatization Working Group, which the Reason Foundation supported via a whole series of federal privatization studies (on candidates such as the Postal Service, the air traffic control system, Amtrak, and others).

Two (but only two) tangible accomplishments followed from these efforts. The first was the successful privatization of Conrail, the northeastern freight railroad taken over by the federal government from the bankrupt Penn-Central. It was sold via a stock offering to investors in 1987, for $1.6 billion.

The other was the appointment of the President’s Commission on Privatization in 1987. At Reason we were so underwhelmed by the cautious, non-Thatcher-like report of the commission that we created a parallel Shadow Privatization Commission, producing our own, much bolder, report. And by the time the official commission’s report was published, in March 1988, the Reagan administration had pretty much run out of steam and was not about to launch any politically difficult privatization initiatives.

“As Reagan’s second term began, ... concerns about the mounting budget deficit led to greater interest in the possibility of a federal privatization effort along the lines of Thatcher’s, the idea being to sell billions of dollars’ worth of federal assets and enterprises to investors, using the proceeds to pay down the national debt.”

Legacy on Web

biographer Lou Cannon. The site also includes video reminiscences from Heritage Foundation experts such as former U.S. Attorney General Edwin Meese III, one of Reagan’s closest advisors, and Reagan biographer Lee Edwards, a historian of the conservative movement.

A “Briefing Room” places Reagan’s presidency and achievements in historical context, detailing Reagan’s Washington (the major players and developments in all branches of the federal government during the Reagan era), electoral data covering his entire political career, his economic record, and more.

The site also features collections of Reagan quotations and photographs, as well as a list of 24 books examining his life and policies.

It seems fitting that The Heritage Foundation would create such a massive collection of information about Reagan and his policies. The Heritage-Reagan connection began in 1980, when the think tank provided the president-elect’s transition team with detailed policy prescriptions on everything from taxes and regulation to trade and national defense. United Press International described Heritage’s 1,100-page Mandate for Leadership, the published version of these recommendations, as “a blueprint for grabbing the government by its frayed New Deal lapels and shaking out 48 years of liberal policy.”

The new president used the Mandate to help realize his vision of a world free of communism, an economy that didn’t crush people’s dreams with high taxes and regulations, and an America the world could admire once again. He gave copies to every member of his Cabinet. The result: His administration adopted or attempted nearly two-thirds of Mandate’s 2,000 recommendations.

In his second term, 22 specific proposals from Mandate for Leadership II found their way into Reagan’s second inaugural address, prompting The New York Times to observe, “While the wording of the president’s speech and the foundation’s document were different, many of the proposals were strikingly similar.”

Heritage created the position of Ronald Reagan Fellow in Public Policy, naming Meese as its first fellow. In 1998, Heritage awarded the former president the Clare Boothe Luce Award, its highest honor, for his achievements in advancing conservatism.

Khris Bershers is deputy director of media services at The Heritage Foundation. His email address is KhrisBershers@heritage.org.
The Bush Tax Plan: How Big Was the Cut?

by Scott Moody

There is a good deal of disagreement over just how big President George W. Bush’s tax cuts really were, and hence whether they were a wise policy choice.

According to the Treasury Department, there have been 19 significant federal tax cuts since the end of World War II. Three of them—the Economic Growth and Tax Reform Reconciliation Act of 2001 (EGTRRA), the Job Creation and Workers Assistance Act of 2002 (JCWA), and the Jobs and Growth Tax Relief and Reconciliation Act of 2003 (JGTRRA)—were passed under this Bush administration.


Bush Tax Cuts Not Unusually Big

Looking at the Bush tax cuts in light of the Kennedy and Reagan cuts suggests the Bush cuts were by no means extraordinary in magnitude.

Tax Cuts and National Income: Contrasting the size of the various tax cuts with national income shows that the Kennedy tax cut, representing 1.9 percent of income, was the single largest first-year tax cut of the post-WW II era. The Reagan tax cuts represented 1.4 percent of income, while none of the Bush tax cuts even reached 1 percent of income."

“[T]he Kennedy tax cut, representing 1.9 percent of income, was the single largest first-year tax cut of the post-WW II era. The Reagan tax cuts represented 1.4 percent of income, while none of the Bush tax cuts even reached 1 percent of income.”

25 percentage points below Kennedy’s level of defense spending.

Tax Cuts and Deficits: Kennedy passed his tax cuts while running a deficit equaling 1 percent of national income. In 1981, Reagan cut taxes while running a deficit of 2.8 percent of national income. Bush passed the largest of his three tax cuts, EGTRRA, in 2001 with a budget surplus of 1.5 percent of income.

Problems with Comparisons

Comparing tax legislation over time is tricky. In the 1960s, Congress calculated only how much a tax proposal would save taxpayers in the next year. In the late 1970s, five-year estimates became the norm, and more recently 10-year estimates have been required.

Obviously, no one should compare the dollar amount of a 10-year estimate to that of a five-year or one-year estimate. Whenever you hear or read that the Bush tax cut in 2001 was “the biggest tax cut ever,” that’s the mistake being made: It is like saying a 16 ounce steak costs more now than an 8 ounce steak cost 20 years ago.

With two precautions, however, tax legislation can be compared. The first step is to adjust for inflation, and the second is to compare the effects over the same number of years. Although the comparison between the various tax cuts outlined here is interesting and gives a general idea of how large a tax cut past presidents and congresses were willing to consider, it is an exercise fraught with technical difficulties.

Scott Moody is an economist for the Tax Foundation. His email address is moody@TaxFoundation.org.

KENNEDY, REAGAN, AND BUSH TAX CUTS IN HISTORICAL PERSPECTIVE

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**The Bush Tax Cuts**

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(a) First year estimate  (b) National Income as measured by Net National Product

KENNEDY, REAGAN, AND BUSH TAX CUTS COMPARED TO OTHER BUDGET ITEMS

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**The Bush Tax Cuts**

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(a) Percentages created by treating tax relief as if it were a budgetary item  (b) National Income as measured by Net National Product
Why Congress Can’t Stop Spending

by Rep. Ron Paul

Congress spent one evening during the last week of June debating a token measure to reduce government spending by implementing very slight caps on some future entitlements. Not surprisingly, even this exceedingly modest bill failed overwhelmingly. The process behind the vote, however, reveals just how deeply ingrained the federal spending problem really is.

House leaders knew the spending control bill had little chance of passing. In fact, that’s why they allowed the vote to happen. The real goal was to appease fiscal conservatives in Congress, some of whom have become increasingly uncomfortable with the unrestrained spending contained in the proposed FY 2005 budget.

Some of these fiscal conservatives supported an alternative budget that spent about 1 percent less than the proposed FY 2005 budget. The desire to win re-election is paramount, and those who go along get plenty of help from their party’s fundraising machines. Some members who buck the system find themselves facing primary opponents in the next election as a result. The pressure to go along with the herd in Congress is intense, regardless of which party is in control. Every member knows that thwarting his party’s leadership, particularly on budget matters, is risky. Any opposition to spending bills can result in veiled or even open threats to cut funding for the member’s district, to limit the stroke of a pen, by adding or eliminating caps on some future entitlements. Not everybody complains about pork, but members of Congress know the pressure to go along with the herd is intense, regardless of which party is in control.

Symbolic Gesture

The spending control measure considered that June night was merely a symbolic gesture designed to quash the complaints of fiscal conservatives and ensure their cooperation when the final budget vote is cast later this year. After all, those members now can tell their constituents they voted to keep a lid on spending, even as they please their party bosses later.

The pressure to go along with the herd in Congress is intense, regardless of which party is in control. Every member knows that thwarting his party’s leadership, particularly on budget matters, is risky. Any opposition to spending bills can result in veiled or even open threats to cut funding for the member’s district, to limit the stroke of a pen, by adding or eliminating caps on some future entitlements. Not everybody complains about pork, but members of Congress know the pressure to go along with the herd is intense, regardless of which party is in control.

“Some of these fiscal conservatives supported an alternative budget that spent about 1 percent less than the proposed budget. Even that nominal act of rebellion earned them the ire of the House leadership.”

Ultimate Power

In Congress, control of the nation’s purse strings represents the ultimate power. Appropriators can reward some lawmakers and punish others with the stroke of a pen, by adding or eliminating federal projects in any congressional district. No amount of talk about spending can change the reality that government power naturally grows. Everybody complains about pork, but members of Congress keep spending because voters do not throw them out of office for doing so. The rotten system in Congress will change only when the American people change their beliefs about the proper role of government in our society.

The pressure to go along with the herd in Congress is intense, regardless of which party is in control. Every member knows that thwarting his party’s leadership, particularly on budget matters, is risky. Any opposition to spending bills can result in veiled or even open threats to cut funding for the member’s district, to limit the stroke of a pen, by adding or eliminating caps on some future entitlements. Not everybody complains about pork, but members of Congress know the pressure to go along with the herd is intense, regardless of which party is in control.

Too many members of Congress believe they can solve all economic problems, cure all social ills, and bring about worldwide peace and prosperity simply by creating new federal programs. We must reject unlimited government and reassert the constitutional rule of law if we hope to halt the spending orgy.

The words of H.R. Gross, the great libertarian-conservative congressman from Iowa (3rd district, 1949-75), ring as true today as they did during a budget debate in 1974:

“No amount of legislation will instill in a majority of the members of the House the ingredient, the element that has been missing. That is fiscal responsibility. Every Member knows that he or she cannot for long spend $75,000 a year on a salary of $42,000 and remain solvent. Every member knows this government cannot forever spend billions beyond tax revenue and endure. Congress already has the tools to halt the headlong flight into bankruptcy. It holds the purse strings. No President can impound funds or spend unwisely unless an improvident, reckless Congress makes available the money. I repeat, neither this nor any other legislation will provide morality and responsibility on the part of members of Congress.”

Rep. Ron Paul, M.D. represents the 14th District of Texas in the United States House of Representatives. He can be contacted via the Web feedback form at http://www.house.gov/paul/contact.shtml.

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Rich Pay More When Tax Rates Fall

by Sonia Hoffman

Claiming that too many rich people and corporations aren’t paying their fair share of taxes seems to be a sure way to get applause on the campaign trail. But this populist appeal is based on two economic fallacies:

1. That higher tax rates cause rich people to pay more in taxes; and
2. That corporations rather than individual workers and consumers pay corporate taxes.

Lower Rates Bring Higher Revenues

When President Ronald Reagan cut taxes in 1981 through 1983, his opponents said it was a “giveaway to the rich.” But Internal Revenue Service data show those tax cuts actually increased the amount of federal revenues paid by taxpayers in upper income brackets.

In 1981, before the Reagan tax cuts could take full effect, the top 1 percent of income earners paid 17.58 percent of all income taxes in the United States. By the time Reagan left office in 1989, that same group paid 25.24 percent of all incomes taxes in the U.S.—almost a 50 percent increase in the share paid by the rich.

Conversely, after the Clinton administration pushed for tax hikes in 1993, the top 1 percent saw their share of income tax revenues drop from 29.01 percent in 1993 to 28.86 percent in 1994.

In other words, when rates are cut, the rich spend less time looking for ways to hide their income. It’s only when taxes go up that upper-income taxpayers go running for the shelters.

Consumers Ultimately Pay

In 2002, corporations paid $211.4 billion, compared with individual income tax revenues of more than $1 trillion. So are the corporations cheating the rest of us by paying so little?

Of course not. Any serious economist knows the workers in this country ultimately pay all taxes. The money corporations pay in taxes must first come from consumers. Higher corporate taxes mean higher consumer prices.

It’s that simple. Therefore, cutting the tax burden on corporations actually cuts the tax burden on individuals.

Since cutting tax burdens across the board actually results in an increase in the amount of taxes “rich” people pay, one would expect advocates of more income redistribution to propose cutting tax rates on all individuals and corporations. That they are not suggests their real concern isn’t how much the rich pay in taxes, but instead how to raise the total amount of taxes collected. “Fairness” has nothing to do with it.

This article was adapted from a TaxBytes commentary by Sonia Hoffman, who does marketing and media relations for the Institute for Policy Innovation. Her email address is shoffman@ipi.org.

Saving Social Security

by Rep. Joe Barton

Since its passage in 1935, the Social Security Act has helped provide economic security to millions of Americans. Over the years, Social Security programs have been broadened to provide more assistance to a greater number of Americans.

Today, more than 150 million workers and 96 percent of all employment fields in the United States are covered under Social Security.

The Social Security system is now running surpluses of income over outlays—meaning more income from taxes is being received than there are benefits being paid. But according to the Social Security Administration’s board of trustees (three officers of the President’s Cabinet, the Commissioner on Social Security, and two members representing the public), these surpluses will not continue unless steps are taken to ensure future solvency of the program.

It is projected that within the next few years, the number of individuals age 65 and older will rise by 76 percent, while the number of workers supporting the system will increase by only 16 percent. As this new generation of senior citizens begins to draw benefits, the number of recipients is expected to increase to 66 million by 2013. During the next 10 years, the estimated cost to ensure continued benefits at present levels is $6.3 trillion in outlays.

“`As we consider ways to reform Social Security, it is my belief we should allow for individual choice so that the decision-making power is placed in the hands of individuals and not the federal government.”

Most Members of Congress agree with the board of trustees that the Social Security program must be reformed to ensure this depletion does not happen. However, we are not all united on how this monumental reform should be undertaken.

Essentially, there are three general proposals that have been drafted in the form of legislation: partial privatization of the program to allow individuals to establish mandatory savings accounts; full privatization; and keeping the situation at status quo and reducing benefits.

During the 107th Congress, bills that would have established personal accounts to supplement or replace part of the Social Security system were introduced. A bill introduced by Representative Robert Matsui (D-California), would have enacted proposals made by a commission appointed by President Bush to provide reform recommendations.

In the current Congress, Representatives Clay Shaw Jr. (R-Florida), Adam Smith (D-Washington), Jim DeMint (R-South Carolina), and Jim Kolbe (R-Arizona) have each reintroduced proposals in slightly modified forms that would privatize Social Security through voluntary or mandatory accounts.

As we consider ways to reform Social Security, it is my belief we should allow for individual choice so that the decision-making power is placed in the hands of individuals and not the federal government. I am not sure full privatization is the answer, but I do support the privatization of a portion of an individual’s Social Security funds.

Giving individuals the opportunity to invest in the private sector should yield values exceeding future Social Security benefits. Personal account investments should also offset cuts in Social Security benefits and avert the need for higher taxes which would be included in other proposals to restore the system to a sound financial footing.

Seniors deserve their hard-earned Social Security benefits without the burden of an increased level of taxation. Higher tax rates only punish seniors and discourage work and saving for retirement.

I believe the Social Security system can be reformed to ensure solvency and maintain benefits for current recipients while also providing retirement security for future retirees through this century. To achieve that, however, my congressional colleagues must join in the efforts to reform Social Security now.

Rep. Joe Barton (R) is from Ennis, Texas. He can be contacted via his Web site’s feedback form at http://www.joebarton.house.gov/contact.asp.
Virginia
Continued from page 1

and use taxes, a few large estate tax payments, fewer income tax refunds, and some increase in withholding collections accounted for most of the growth."

Bennett continued, "Year-to-date revenue growth of 9.3 percent is well ahead of the annual forecast of 6.7 percent."

Bennett’s memo has caused many state observers to doubt the wisdom of the recent vote in Virginia to impose a record increase in state taxes.

Numbers Unavailable for Debate over Increase

On April 28, after more than 100 days of heavy fighting, the legislature approved the biggest tax increase in Virginia’s history—a biannual price tag of $1.6 billion. Some thought the year’s political drama a biannual price tag of $1.6 billion.

Debate over Increase

In March and April, general fund revenue were 22.5 percent ahead of the same two months of the previous year. Although the May increase was more modest—up 7.3 percent—it was still good enough to boost year-to-date tax collections by 9.3 percent with only one month left in the fiscal year.

Cuccinelli questioned whether the outcome of the tax increase vote would have been the same had the numbers been available earlier. "While I cannot speak for the pro-tax Republicans (in the Senate)," he said, "it is safe to say that had the tax vote been delayed long enough to have just one more month’s worth of data, the pro-taxers’ picture of the Virginia economy would have been blown out of the water, and it would have been much harder to get to 51 votes in the House of Delegates."

 Doubts About Need for Tax Hike

"Governor Warner and his entourage of tax hikers are unimpressed by the revenue data and continue to hold the tax increase was necessary and an important step forward," said Grover Norquist, president of Americans for Tax Reform. "For the governor, the tax vote was the happy end of the drama. Since then, Warner has embarked on his victory tour and is holding himself up as a fiscal model."

Warner campaigned on a "no new taxes" platform but recently changed his mind. "The fact is I will not raise taxes. My plan states it. I’ve said it through this campaign," remarked the governor during his gubernatorial campaign in 2001. But after April’s record tax increase, the governor said at a meeting of the Democratic Leadership Council, "I believe what we have done in Virginia contains some pretty important lessons for Democrats throughout the United States and our colleagues in Congress. Because I believe today we’re in a time that cries out for leadership ... on fiscal issues."

Battle May Resume

For fiscal conservatives, the battle is not over yet. According to John Taylor, president of the Virginia Institute for Public Policy, "we are two acts through a three-act-play."

According to Taylor, the first act was the November 2002 sales tax referendum, where Virginia voters rejected higher taxes by a large margin. The second act was the 2004 legislative session, with the tax hike being the closing scene.

"The third and final act will be the House races in November 2005," he predicted.

Some analysts see the tax hike as having very negative implications for the state’s Republican Party. Arthur Purves, president of the Fairfax County Taxpayers Alliance, said, "the Republican Party itself has surrendered to the forces of big government."

Others, however, are more optimistic. "The silver lining is that the tax issue has galvanized the GOP," said James Parmalee, chairman of NorthernVirginiaGOP.com. "Our presumptive nominee for governor, Jerry Kilgore, will be running a strong anti-tax platform and the Democrats are already backpedaling on the tax issue. So once again, we’ll take it to the voters, and that is what the tax and spend liberals are afraid of."

Norquist agrees. "The future of the Republican Party belongs to those who vote for lower taxes," said. "Republican tax hikers are a dying breed."

Said Cuccinelli, "This tax hike is not a reflection of Virginia voters. If that is proven at the ballot box in 2005, Virginia will very quickly become a model ... for the consequences of increasing taxes, especially in a steeply rising economy."

Sandra Fabry is a state government affairs associate for Americans for Tax Reform. Her email address is sfabry@atr.org.

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Smokers Head for the Border to Avoid Cigarette Tax Increase

by Martin Cizmar

Michigan smokers say they’ll smoke ’em while they got ’em. And then get more. In Indiana.

On July 1, a 75-cents-per-pack cigarette tax increase [took] effect in Michigan. The tax increase, which levies a total tax of $2 per pack on Michigan cigarettes compared to a 55.5 cents-per-pack tax in Indiana, is going to have a significant effect on businesses, say people on both sides of the border.

In New Buffalo Township, minutes from the Indiana state line, the last gas station in Michigan stocks only one shelf of cigarettes.

Ann Carter, manager of the Plaza 1 Truck Stop on Michigan 239, said the store doesn’t make any money off the 200 or so packs of cigarettes it sells each month. The store carries them as a courtesy to customers.

“Most of our business is truck drivers who are in a hurry,” she said. “They buy what we have and they don’t care what they cost because they just want to make a quick pit stop and get back on the road. We don’t carry much. When we don’t have what they want I just send them down the street.”

Carter said the tax increase will have very little effect on her business.

“We only sell very few as it is. Now, we probably won’t sell any,” she said.

Business Booms in Indiana

With the tax increase, store workers on the other side of the border say they’re expecting more business from Michigan smokers.

A quarter mile down the road toward LaPorte, Mike’s Country Store is one of three stores near the state line catering to smokers.

Clerk Carrie Swedersky estimated at least half the store’s business comes from cigarette buyers.

“Well over half” the cigarettes she sells are to people from Michigan or Illinois, where the tax is also high, she said.

“We get a lot of people coming down here to buy cartons,” said Swedersky, smoking a cigarette as she worked. “I know if I lived in Michigan I’d come down here.”

Outside the store, a Bangor man who would not give his name arrived from a 50-mile trip to buy five cartons of cigarettes. The man said he has been making the trip to Indiana for some time.

“I think it’s totally ridiculous,” he said. “I’m not going to buy [cigarettes] in Michigan. I’ll tell you that. I’ll drive down here to buy one pack if I have to, even if it costs me $10 in gas to do it. I’ll do it just to spite them.”

The man said the tax isn’t fair and he won’t pay it on principle.

“If you want to have a fair tax put a tax on toilet paper or something, that way we could all pay the debt,” he said.

The Smoke Shop near South Bend is only a few feet south of the state line.

Clerk Heather Moffitt said the store expects business will boom.

“We’re ready ... We know people are going to come here like crazy,” she said. “People know about the tax increase [but it doesn’t hit them until that 75 cents is in their face].”

Moffitt said her customers often complain of being “picked on.”

“Everybody has a bad habit but this seems to be the one they’re cracking down on.”

Possible Police Crackdown

Moffitt said many of her customers worry about being arrested for bringing cigarettes back over the Michigan border.

“The police are really intimidating,” she said. “Indiana cops were parked across the street for two hours the other day, and I saw them pulled up to Michigan cops, talking to them.”

“But I’ve never heard of anybody getting busted.”

According to law, it is illegal to possess any pack of cigarettes without a Michigan tax sticker in the state of Michigan, said Sgt. Rob Davis of the Michigan State Police’s Niles post.

A person who has a small amount of untaxed cigarettes could be arrested and charged with a misdemeanor, Davis said, although he doesn’t think the law will be strictly enforced.

“Most likely, if you have one pack no one’s going to have a problem,” he said.

Niles post Commander Sgt. Forrest Perkins said three officers from his post took a training course offered by the state police tobacco fraud unit, and his officers will be on the lookout for Indiana cigarettes.

Perkins said his officers will take a “proactive approach” and could arrest people who have as little as one or two cartons.

Perkins also said his post is in contact with police in Indiana.

“If they see something, they’ll alert us,” he said.

Berrien County Sheriff Paul Bailey said enforcing the cigarette tax law is not a top priority for his department.

“We aren’t going to waste our resources having patrols watching people buy cigarettes,” he said. “It’s one of those laws that’s really hard to enforce. There’s no way you could have enough people watching the Indiana border.”

People are going to break the law,” he said. “They’ll criminalize this product and they’re going to get it.”

Ten cases of cigarettes, which you could fit in the trunk of a car, would have $4,650 in additional Michigan taxes on it.”

Arrans said politicians who justify the tax by saying that it will help smokers by encouraging them to quit are misleading voters.

“They’re building more and more of the budget on smokers, but they keep saying they want people to quit,” he said.

“They’re building more and more of the budget on smokers, but they keep saying they want people to quit. Why would they build a budget on what they hope will be a vanishing tax base?”

Arrans also pointed out that, since Michigan charges sales tax atop the cigarette tax, the real tax increase is $2.12.

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Gov. Jennifer Granholm (D) proposed the tax increase to help cover the state’s Medicaid deficit. Granholm estimated that it will bring in an additional $97.1 million dollars before the end of the current fiscal year, September 30, and that it will bring in an additional $313 million next year.

Martin Cizmar is a staff writer for the Herald-Palladium in southwest Michigan. His email address is mcizmar@heraldpalladium.com. Reprinted with permission. Copyright 2004 The Herald-Palladium.
Liquor Laws Increase Sales in Ohio, New York, and Delaware

by Lisa Hawkins

Ohio Gov. Bob Taft (R) signed into law on June 17 a bill rolling back the state’s ban on Sunday liquor sales. The law became effective immediately.

Senate Bill 164, sponsored by State Sen. Robert Schuler (R-Sycamore Township), allows liquor license holders to apply for amendments that would permit the Sunday sales. Those businesses must be operating in communities where voters have passed ordinances allowing Sunday sales for bars and restaurants.

Ohio’s ban on Sunday liquor sales, which dated back to the Prohibition era, allowed consumers to buy no alcoholic beverages other than beer and wine on Sundays.

“This new law will bring consumers more choices and greater convenience,” said Peter Cressy, president of the Distilled Spirits Council (DISCUS), the trade association for the nation’s distillers.

Boost for Business

According to the Cincinnati Post, “Local store owners said Sunday liquor sales would boost their businesses by providing a much-needed advantage over liquor retailers in neighboring areas of Kentucky and Indiana, where liquor sales are not allowed on Sunday.”

“Aren’t that a switch,” said Mike Hayes, owner of Hyde Park Wine and Spirits. “I think it will really help border cities around the state.”

Dannyshaeena of Rocket Carryout told Toledo’s WTVO news, “I think this will help business, to be honest with you. This should have been passed a long time ago. Everyone crosses over into Michigan to buy their liquor. They might as well just buy it here in Ohio.”

According to a DISCUS economic analysis, Sunday liquor sales could generate between $9.2 and $15.1 million in new state revenue if all stores that are eligible under the law open for sales on Sundays.

“Sunday liquor sales [in Ohio] could generate between $9.2 and $15.1 million in new state revenue if all stores that are eligible under the law open for sales on Sundays.”

“Sales and tax revenue would increase further if retailers were allowed to open every day of the week,” said Glumuzina, who owns Georgetown Square Wine and Liquor in Williamsville, New York. “It’s a matter of convenience for our shoppers. People want the freedom to shop when they can, and the marketplace should be able to accommodate that.”

Jim Mackenzie, owner of Wine World in Amherst, New York, reported that stores in his area have also experienced a boost in business from Sunday sales. “It has been a boon for our business and for other stores near mine,” said Mackenzie. “We used to be open 12 hours on Tuesdays, but I gave that up to open just five hours on Sundays, and we’re doing twice as much business as we were on Tuesday. We have been very pleased with the results.”

In New York City, Darrin Siegfried, owner of Red, White, and Bubbly, in Brooklyn, chose at first not to open on Sundays but reversed his decision when he realized Sunday business was successful and better for his customers.

“Fantastic Success”

“We decided to try opening on Sundays because our customers come first, and that’s where they are shopping,” Siegfried said. “We have only been open on Sundays for about a month, and already we’re doing more business on Sunday than we were on Tuesday, the day we now have to close.”

Delaware businesses, now allowed to open seven days a week, also reported increased sales.

“There has been a fantastic success,” said David Tignagi, owner of Total Wine & More in Claymont, Delaware. “Most retailers here have chosen to be open, and the state is reporting double-digit sales increases.”

Spirit wholesaler Christopher Tignagi said he now employs six additional full-time Delaware workers because of increased Sunday sales business.

“Sunday sales in Delaware have far surpassed my expectations,” said Tignagi, executive vice president of NKS Distributors. “Our customers are pleased by the convenience, and local businesses are pleased consumers are now staying in Delaware to buy their products instead of crossing state lines.”

Lisa Hawkins is vice president for the Distilled Spirits Council. She can be reached via the group’s Web feedback form at http://www.discus.org/contact/.
Canadians Celebrate Tax Freedom Day on June 28

Higher taxes and spending make for later freedom day

by Mark Mullins

Canadians finally started working for themselves, rather than their governments, on June 28 of this year, one day later than they did last year.

According to the Fraser Institute’s annual Tax Freedom Day estimate, released on June 21, all income earned by Canadians before June 28 was used to pay the tax bill imposed on them by all levels of government—federal, provincial, and local.

Typically, Tax Freedom Day in Canada falls later in the year than in the United States. In 2004, Americans celebrated Tax Freedom Day more than two months earlier than Canadians, on April 11, according to the Washington, DC-based Tax Foundation.

The Fraser Institute calculates Tax Freedom Day to provide a simple reference point about the impact of the most costly and intrusive activity of government: tax collection. The institute has been researching the tax burden borne by the average family in Canada and in each of the provinces since 1977.

“It is nearly impossible for an ordinary citizen to have a clear idea of how much tax they really pay,” said Niels Veldhuis, senior research economist at the institute. “Tax Freedom Day gives Canadians a true picture of their total tax burden.”

Date Measures Costs, Not Benefits


“The fact that Tax Freedom Day has been steadily increasing since 2001 and comes only four days earlier than its peak should be cause for concern,” said Veldhuis. “All the talk of tax relief has not resulted in meaningful reductions in the tax burden for Canadian families.”

Veldhuis pointed out that Tax Freedom Day is not intended to measure the benefits Canadians receive from governments in return for their taxes. Instead, it looks at the price Canadians pay for a product: government.

“Tax Freedom Day is not a reflection of the quality of the product, how much of it each of us receives, or whether we get our money’s worth. It’s up to individual Canadians to decide how much value they receive in return for their tax dollars,” Veldhuis noted.

Total Tax Bill Has Increased

The average Canadian family experienced a $1,327 increase in its total tax bill between 2003 and 2004. More than 40 percent of that growth was the result of increases in social security, pension, medical, and hospital taxes. Income taxes were responsible for 34 percent of the increase in Canadians’ total tax bill, while sales taxes represented 12.5 percent of the total increase.

“By providing increased revenues with existing tax rates, economic growth should have paved the way for reductions in both personal and business taxes to ensure lasting competitiveness,” said Veldhuis. “Unfortunately, the majority of tax revenue gains were dedicated to increases in government spending and not used to reduce tax rates.”

Tax Freedom Varies by Province

Although all Canadians face more or less the same federal tax bill, the Tax Freedom Day for each province varies according to the weight of the provincial tax burden. This year, the earliest provincial Tax Freedom Day fell on June 10 in Prince Edward Island, and the latest date fell on July 3 in British Columbia. Alberta and British Columbia were the only two provinces where Tax Freedom Day arrived earlier in 2004 than it had in 2003. Tax Freedom Day peaked in 2000 for five provinces: British Columbia, Alberta, Saskatchewan, Manitoba, and Quebec; it peaked in 1999 for Ontario. All four Atlantic Provinces—New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland—experienced new peaks in Tax Freedom Day in 2004.

Alberta showed the largest decline in its Tax Freedom Day from its peak in 2000 to 2004, recording a 20-day improvement. Quebec and Manitoba had the next largest decreases since their peak in 2000, at seven days and six days, respectively. British Columbia (5 days) and Saskatchewan (3 days) also experienced improvements in their Tax Freedom Day from their peak in 2000. Ontario’s Tax Freedom Day in 2004 fell one day earlier than its peak in 1999.

Mark Mullins is director of Ontario policy studies for the Fraser Institute. His email address is markm@fraserinstitute.ca.

Methodology of Tax Freedom Day Calculation

Tax Freedom Days are calculated on the Fraser Institute’s Canadian Tax Simulator (CANTASM). Statistics Canada’s Social Policy Simulation Database and Model (SPS/M) is an important part of the Fraser model for the 1992 through 2004 Tax Freedom Days. The Tax Freedom Day calculations from 1992 to 2003 were revised using updated provincial and federal budget numbers, and with data from Statistics Canada.

The taxes used to compute Tax Freedom Day include income taxes, property taxes, and sales taxes, as well as profit taxes, health, social security, and employment taxes, import duties, license fees, taxes on the consumption of alcohol and tobacco (“sin” taxes), natural resource fees, fuel taxes, hospital taxes, and other levies.

— M.M.
Worldwide Sourcing Adds Jobs to U.S. Economy, IT Association Says

by Bob Cohen

According to the Information Technology Association of America (ITAA), worldwide sourcing of certain jobs is actually a boost for the U.S. economy—and the group provides the data to back up its position.

“Worldwide sourcing of computer software and services increases the number of U.S. jobs [and] improves real wages for American workers by pushing the U.S. economy to perform at a higher level,” said the ITAA, summarizing the results of a study it commissioned from Global Insight, a leading economic analysis, forecasting, and financial information company. The study was completed on March 30, 2004.

The Global Insight research team was led by the firm’s chief economist, Dr. Nariman Behravesh, who is regularly rated by the financial press as one of the world’s most accurate economic forecasters. Nobel Prize-winning economist Dr. Lawrence R. Klein, founder of Wharton Econometric Forecasting Associates (WEFA) Inc., also contributed to the study.

“We have long held the position that global sourcing creates more jobs and higher real wages for American workers,” said ITAA President Harris N. Miller. “Now we have the data that prove it. Far from being an economic tsunami that washes away domestic IT employment as some believe, global sourcing helps companies become more productive and competitive.”

The study revealed other important new insights. Between 2000 and 2003, job losses to offshore outsourcing—either domestic jobs eliminated or jobs created overseas instead of in the United States—totaled 104,000, about $124.2 billion higher than it would be in an environment in which offshore IT workers similar to that offered to U.S. Economy, IT Association Says

Better Pay, Improved Economy

Among the major findings of the ITAA/Global Insight study are the following:

Worldwide sourcing of information technology (IT) services and software increases total employment in the United States, generating an additional 90,000 U.S. jobs in 2003. By 2008, net new jobs will total 317,000.

In the software and services area, the U.S. economy will create 516,000 jobs over the next five years in an environment with global sourcing, but only 490,000 without it. Of the 516,000 new jobs, 272,000 will go offshore and 244,000 will remain onshore. Thus, the U.S. IT workforce will continue to grow.

Global sourcing adds to the take-home pay of average U.S. workers. With inflation kept low and productivity high, worldwide sourcing will increase real wages in the U.S. by 0.13 percent in 2003, climbing to 0.44 percent in 2008.

The cost savings and use of offshore resources lower inflation, increase productivity, and lower interest rates. These boost spending and increase economic activity.

Worldwide sourcing contributes significantly to real U.S. Gross Domestic Product (GDP), adding $33.6 billion in 2003. By 2008, real U.S. GDP will be $124.2 billion higher than it would be in an environment in which offshore IT software and services outsourcing did not occur.

Spending for global sourcing of computer software and services will grow at a compound annual rate of almost 26 percent, from approximately $10 billion in 2003 to $31 billion in 2008. Total spending on software and services will also continue to increase in the United States. During that period, total cost savings from worldwide sourcing of computer software and services will grow from $6.7 billion to $20.9 billion, much of which will be reinvested in the United States.

Demand for U.S. exports increases in response to global sourcing. Countries can buy more because they can sell more; the United States, in turn, has more to sell because of increased investment in new products and services, better productivity, and lower inflation. Global sourcing contributed $2.3 billion to U.S. exports in 2003 and will contribute $9 billion by 2008.

“The savings produced through worldwide sourcing are invested in new products and services, in new market expansion, and, most importantly, in creating new jobs and increasing real wages for American workers,” summarized ITAA’s Miller. “This research replaces fear with sound economic analysis, allowing for an informed approach to the global marketplace.”

Need to Help Displaced Workers, Expand Free Trade

Although worldwide sourcing is expected to increase jobs and wages, Miller said much needs to be done to help workers displaced by this economic shift. The report offered a range of recommendations, including the following:

Make information technology and other service-sector workers eligible for government assistance when their jobs are displaced by foreign operations.

Consider offering assistance to service workers similar to that offered to manufacturing workers, in a variety of forms including skills training (and compensation during the training period), job search and relocation allowances, and, in appropriate circumstances, transportation, child care, and health care assistance.

Continue full and fair enforcement of U.S. trade laws as a high priority. The U.S. government should consider moving against countries that are defying international agreements by using tariffs or non-tariff barriers to harm global trade, including trade in services and government procurement. The U.S. government should encourage other countries to remove barriers to U.S. exports and open services markets to foreign competition.

“The benefits of free trade clearly provide a boost to the U.S. economy,” said Behravesh. “Using offshore resources reduces costs, dampens inflation, lowers interest rates, increases spending, and creates additional jobs. The challenge is to help displaced workers transition to other productive activities.”

Bob Cohen is senior vice president, communications, for the Information Technology Association of America. His email address is bcohen@itaa.org.
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