The Heartland Institute
19 South LaSalle #903
Chicago, IL 60603

by John Skorburg

State of Washington voters will rule in November on a ballot initiative that would raise the state’s sales tax to increase school funding. Initiative 884, a referendum to create a “trust fund” for education in the state, is on the ballot for the November election. If the measure is approved by voters, the state sales tax rate will increase from 6.5 to 7.5 percent.

KERRY p. 19

by Annie Patnaude

After the Democratic National Convention in Boston, candidate John Kerry still trailed President George W. Bush, according to a USA Today/CNN/Gallup presidential poll taken July 30 and 31. In an article published in USA Today on August 1, reporter Susan Page wrote, “Last week’s Democratic convention boosted voters’ impressions of John Kerry but failed to give him the expected bump in the head-to-head race against President Bush ...”

Page noted, “In the survey, taken Friday and Saturday, Bush led Kerry 50 percent to 46 percent among likely voters.

Kntas p. 14

by Karl Peterjohn

Republican tax hike advocates lost several high-profile races in the August 3 Kansas primary. Among those defeated were the grandson of a former presidential candidate and the governor’s brother-in-law, who received barely 40 percent of the vote in losing his contest.

In Kansas, this practice of rejecting high-taxers is not new. According to Robert Novak’s August 8 column in the

WASHINGTON p. 9

by John Skorburg, Sandra Fabry, and Daniel Clifton

President George W. Bush’s ‘ownership society’ vision puts forward a policy agenda designed to boost individual ownership of homes, small businesses, health care, and retirement assets. Central to his plan are ‘Lifetime and Retirement Savings Accounts’ (LSAs and RSAs), which allow individuals to invest $10,000 tax-free for both immediate and retirement savings with no limitations.

by John Skorburg

President Bush is expected to push for new tax-free savings accounts during the upcoming presidential race by promoting a bill by a fellow Texas Republican, Representative Sam Johnson. Under the Lifetime Savings Accounts Act of 2004, H.R. 4078, Americans would be able to contribute up to $5,000 a year to two types of savings accounts and withdraw money at any time without penalty.

The contributions would not be tax-deductible (that is, they would be made with after-tax dollars), but earnings would accumulate tax-free and withdrawals would not be taxed. Persons with existing education accounts would be permitted to convert them into the new lifetime savings accounts. Sandra Fabry of Americans for Tax Reform recently interviewed Daniel Clifton, executive director of the American Shareholders Association in Washington, DC, on this subject.

Fabry: How do Lifetime and Retirement Savings Accounts work?

Clifton: Under Rep. Sam Johnson’s legislation (HR 4078, introduced in

LSAs p. 16

by John Skorburg

State of Washington voters will rule in November on a ballot initiative that would raise the state’s sales tax to increase school funding. Initiative 884, a referendum to create a “trust fund” for education in the state, is on the ballot for the November election. If the measure is approved by voters, the state sales tax rate will increase from 6.5 to 7.5 percent.

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The Heartland Institute
19 South LaSalle #903
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Hastert Book Says GOP Plans to Abolish IRS

by Doug Patton

U.S. House of Representatives Speaker Dennis Hastert (R-Illinois) wrote in a new book that congressional Republicans plan to push for elimination of the Internal Revenue Service (IRS) if President Bush is elected to a second term.

The Drudge Report revealed on August 1 that Hastert’s recently published book, Speaker: Lessons From Forty Years in Coaching and Politics, discloses a plan by Bush and the GOP Congress to replace the federal income tax with a national sales tax.

“People ask me if I’m really calling for the elimination of the IRS,” Hastert writes. “I say I think that’s a great thing to do for future generations of Americans.”

A growing number of members of Congress have become supporters of the so-called Fair Tax, a national sales tax on new consumer items. U.S. Reps. John Lindner (R-Georgia) and Steve King (R-Iowa) have been vocal supporters of the plan, and Lindner already has introduced such a plan in Congress.

“By adopting a sales tax … we could begin to change productivity,” Hastert writes. “If you can do that, you can change gross national product and start growing the economy. You could double the economy over the next fifteen years.

“All of a sudden, the problem of what future generations owe in Social Security and Medicare won’t be so daunting anymore,” Hastert continues. “The answer is to grow the economy, and the key to doing that is making sure we have a tax system that attracts capital and builds incentives to keep it here instead of forcing it out to other nations.”

King, who campaigned on the sales tax proposal during his first run for Congress in 2002, said he believes the measure would pass if Bush were to get behind it during his second term. He also believes that once taxpayers understand the ramifications of the change, they will embrace it.

“We need to stop taxing productivity,” King told Talon News on August 2. “As Ronald Reagan said, whatever you tax, you get less of. I believe we should give taxpayers a one-year moratorium on withholding tax and let them keep everything they earn while trying the Fair Tax. Do that and they will never go back to the old system.”

Hastert admits the change won’t be an easy thing to accomplish.

“Pushing reform legislation will be difficult,” he writes. “Change of any sort seldom comes easy. But these changes are critical to our economic vitality and our economic security abroad.”

A recent poll reported by Talon News indicated 93 percent of respondents want to see the current federal tax system replaced by a sales tax or flat-rate income tax. Only 1 percent expressed a preference that the current system be left in place unchanged.

Doug Patton (dpatton@neonramp.com) is a reporter for Talon News (http://gopusa.com). An earlier version of this article appeared on Talon News. Reprinted with permission.
Fiscal Conservative Wins GOP Senate Nod in Oklahoma

by John Skorburg

Former U.S. Representative Tom Coburn (R-Oklahoma) was a runaway winner in the July 27 Oklahoma Republican primary for the U.S. Senate seat being vacated by the retirement of incumbent Don Nickles (R). Coburn received 60 percent of the GOP vote, with former Oklahoma City Mayor Kirk Humphreys a distant second with 26 percent.

Humphreys was the early frontrunner but was forced to address ethics allegations leveled by state corporation commissioner Bob Anthony, who finished third with 13 percent of the vote. “Tom Coburn is a wonderful man, but Bob did his dirty work for him,” Humphreys said in defeat. “Coburn would be hard to beat on a level playing field, but it was not a level playing field.”

November Offers Clear Choice

Coburn will now meet Democrat Rep. Brad Carson in November in a race that could play a large role in determining which party will control the next U.S. Senate. Oklahoma is one of only eight states with an open Senate seat in 2004.

Carson won his primary race with 80 percent of the vote, with former Oklahoma City Mayor Jonathan M. Baron in a prepared statement for Red Sea LLC, a polling company. “Dr. Coburn received a stunning 61 percent of the vote, carrying an amazing 76 of Oklahoma’s 77 counties, in a race with three strong and well-funded candidates.”

“Without the backing of the establishment, Dr. Coburn relied on his brand of honest, principled, grassroots-oriented, conservative leadership to carry the day with Oklahoma voters. We’re confident that those qualities will prevail in November against liberal Congressman Brad Carson,” noted the Red Sea statement. “That’s when the real fun will begin, as the U.S. Senate has not seen the likes of Tom Coburn in a very long time.”

Coburn is expected to run strong in conservative Oklahoma. Moore noted, “Many have failed to grasp the obvious point on his huge victory: Tom Coburn is the unpolitician. He is what a citizen legislator should be. His personal integrity and the willingness to confront and solve the issues of the day are what set Tom Coburn apart from other candidates.”

STEPHEN MOORE, PRESIDENT
CLUB FOR GROWTH

We look forward to assisting him in the general election campaign and hope to retain this Senate seat for the GOP,” said Moore.

The Club’s PAC endorsed Coburn and raised $360,000 to fund his campaign. The PAC also ran a $170,000 television advertising campaign urging Republicans to vote for Coburn.

“We congratulate conservative champion, doctor, and former congressman Tom Coburn on his decisive victory Tuesday in the Oklahoma U.S. Senate Republican primary,” said Jon Lerner and Jonathan M. Baron in a prepared statement for Red Sea LLC, a polling company. “Dr. Coburn received a stunning 61 percent of the vote, carrying an amazing 76 of Oklahoma’s 77 counties, in a race with three strong and well-funded candidates.”

“Without the backing of the establishment, Dr. Coburn relied on his brand of honest, principled, grassroots-oriented, conservative leadership to carry the day with Oklahoma voters. We’re confident that those qualities will prevail in November against liberal Congressman Brad Carson,” noted the Red Sea statement. “That’s when the real fun will begin, as the U.S. Senate has not seen the likes of Tom Coburn in a very long time.”

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Who Is Conrad Meier?

An outstanding speaker... and an expert on health care reform!

Conrad F. Meier is a senior fellow at The Heartland Institute and managing editor of Health Care News, Heartland’s monthly newspaper on market-based health care reform. Meier is a former feature writer for Williams and Wilkins medical journals and past Missouri state chairman of the health insurance committee of the National Association of Life Underwriters. He recently retired as Assistant in Research at the Center for Advanced Social Research, University of Missouri-Columbia.

Engagements are scheduled on a “first come, first served” basis, so call 312/377-4000 today to schedule Conrad Meier to keynote your next event!
Watered-Down TABOR Bill Rushed to Committee Vote in Wisconsin

by Charlie Mathews

For six years, Wisconsin State Representative Frank Lasee (R-Bellevue) has urged adoption of government spending limits as part of a constitutional amendment. Finally, on July 27, the legislature appeared ready to bring the issue up for a vote—but Lasee said he would not support it.

That was because the bill in question was a different one, crafted by the state Senate. After a public hearing that day before the Senate Committee on Judiciary, Corrections, and Privacy, the Senate version was voted through 3-2. The bill never came to a vote before the full Senate, however, which means the proposed amendment to the state constitution died, at least for this session.

“The proposal before you has many loopholes—large ones—which will allow businesses as usual, at least at the state level, for years to come,” Lasee said during legislative debate. He criticized the amendment because it contained no incentive to leave shared revenue and school aids alone.

“As state spending gets tighter, the state will simply reduce these local aids in order to continue spending at historic levels. Local governments will raise taxes to make up the difference,” Lasee said. “There is no referendum requirement for tax increases in this proposal.”

Wisconsin State Representative Frank Lasee (R-Bellevue)

“I don’t understand how the legislature can spend 15 years being inefficient, waste money, get us into this $1 billion deficit, and then decide in one hour to change the Wisconsin Constitution.”

BIFF HANSEN, CHAIRMAN
MANITOWOC COUNTY BOARD

Process Described as Obscene
Manitowoc, Wisconsin Mayor Kevin Crawford and County Board Chairman Biff Hansen went to Madison on that Tuesday morning to oppose the content of the proposed amendment as well as the process for consideration and possible vote.

“This is a low point for our legislature’s ethics. The idea they would bring forth something as important as an amendment to the constitution, knowing legislators are out of town on political business, and run the issue through is obscene,” Crawford said.

“The state is stealing more money meant for local services to pay their own bills and forcing (local) public officials to either cut services or raise taxes,” Crawford said.

Lasee agreed. “The lack of safeguards for local aids and state mandates will allow the state to pad its own budget at the expense of local governments,” he said.

Hansen and Crawford were critical of Senate Majority Leader Mary Panzer (R-West Bend). They believed she might call for a vote in hopes that state Democrats at the party’s national convention in Boston would be unable to return in time to vote against the plan. As noted earlier, the vote was called in committee and passed 3-2, but opposition from fellow Republicans discouraged Panzer from bringing the bill to the floor for a vote by the full Senate.

Officials Call for Local Controls
“I don’t understand how the legislature can spend 15 years being inefficient, waste money, get us into this $1 billion deficit, and then decide in one hour to change the Wisconsin Constitution,” Hansen said.

Crawford said there is a need for tax reform, but that proposals should be thoroughly debated. Hansen advocated local control and oversight of spending. “I am very accountable to the people in Manitowoc County. They directly vote for me and I pass on tax increases to them. Local control is the best control,” he said.

Charlie Mathews is a reporter for the Manitowoc Herald Times. He can be reached via the feedback form on the newspaper’s Web site at http://www.wisinfo.com/heraldtimes/contactus/readerservices/submitnews.shtml. This article first appeared on July 28 and is reprinted with permission.

Study Reveals Wisconsin State and Local Tax Burden Is Sixth-Highest in Nation

by John Skorburg and Bill Ahern

As the Wisconsin legislature debated tax limitations amid much confusion and political maneuvering (see “Watered-Down TABOR Bill Rushed to Committee Vote in Wisconsin,” above), a Washington, DC-based tax analysis group documented why such a law should be amended because it contained no safeguards for local aids and state mandates.

Wisconsin’s taxpayers have gone from being the third most heavily taxed state population in the nation to paying the least among the 50 states in the past several years. Becoming less heavily taxed is not due to Wisconsin’s government spending limits, according to a Tax Foundation analysis.

In 2004, the nation’s average state-local tax burden was 10.0 percent of residents’ income, with the highest being New York’s 12.9 percent and the lowest being Alaska’s 6.3 percent.

Wisconsin has ranked seventh or eighth, rather than 10th or 11th. That’s because the state ranked never broken into double digits, Moody noted.

Wisconsin State Representative Frank Lasee (R-Bellevue) has been working for a tax limitation law in Wisconsin for the better part of the past decade. After a watered-down limitation (which he opposed) was passed out of a state Senate committee on July 27, Lasee said, “I’ll continue over the next several months to talk about the issue, and we’ll continue to push it. I’m not giving up.”

State Taxes Have Dropped Slightly

According to the Tax Foundation calculations, taxes paid to state and local government in Wisconsin, as a percentage of all income earned in the state, have dropped over the past five years, from 12.1 percent in 1999 to 11.1 percent in 2004.

That five-year decline in Wisconsin’s state plus local tax burden outpaced the nationwide decline over the same period. The national average state plus local tax bite dropped from 10.4 percent of income in 1999 to 10.0 percent in 2004, according to the Tax Foundation report.

The Tax Foundation has monitored tax policy at the federal, state, and local levels since 1937 and is best known for its annual calculation of Tax Freedom Day.

John Skorburg (skorburg@heartland.org) is managing editor of Budget & Tax News. Bill Ahern (ahern@taxfoundation.org) is director of communications at the Tax Foundation.

Taxes Soar in Ohio

State and local taxes are soaring in Ohio, according to a May editorial in the Wall Street Journal.

“State-local taxes have risen considerably in Ohio over the past several years, reaching 11.3 percent of [state residents’] income,” according to an editorial in the May 4 issue of the Wall Street Journal, citing data from the Tax Foundation.

“That makes Ohio’s state-local tax burden the third highest in the nation. Only the state and local governments of New York and Maine take a larger fraction of their citizens’ income,” said Tax Foundation economist Scott Moody. “As recently as 2000, Ohio had just the 13th highest state-local tax burden. In 1997 Ohio ranked 20th, and in 1990 it ranked 30th.”

“State rankings rarely change this rapidly,” said Moody. In 2004, the nation’s average state-local tax burden was 10.0 percent of residents’ income, with the highest being New York’s 12.9 percent and the lowest being Alaska’s 6.3 percent.

J.S.
Wisconsin Barely Passes Lukewarm Taxpayer Bill of Rights Out of Committee

by Rep. Frank Lasee

T he room was full of shocked expressions at the July 27 hearing of the Wisconsin State Senate. Why? Because I was testifying against their proposed state Taxpayer Bill of Rights (TABOR).

For six years, I’ve been working to pass a Taxpayer Bill of Rights for Wisconsin. For the past six to eight months, while Wisconsin’s own tax revolt has given us the momentum, I’ve been working harder than ever.

Under considerable political pressure from a conservative (and substantial) primary challenger, Senate Majority Leader Mary Panzer (R) finally did the right thing and called for the legislature to pass a Taxpayer Bill of Rights. However, the version voted on was not mine, but a watered-down version, which passed the Senate Judiciary Committee 3-2 on the 27th. No vote, however, was ever scheduled in the full Senate.

For me, this could have been the culmination of six years of work. According to state law, a constitutional amendment has to be published no later than three months before the next November election. That meant we had to pass it two, maybe three days after the committee vote.

The Senate had exactly one week to get it done, and I was sitting on the only draft. The only draft that had already had a public hearing. The only one that had been vetted. The only one that had received more than superficial debate. I didn’t really expect to get a vote on my version, and it was quickly clear that I wouldn’t. Instead, the Wisconsin legislature was going to push through a different version, something that had been put together in less than two days.

But that’s not why I opposed it. A real Taxpayer Bill of Rights will protect the taxpayer. The draft we talked about in the Senate would not.

The Senate version had no protection for local governments; It would allow the state to cut local aid, just to pad its own budget. Local governments would then raise our taxes to make up the difference, because the Senate draft doesn’t require a referendum on tax increases.

The Senate version also had no protection against mandates: The state would simply shift programs and spending onto local governments.

The Senate version allows the legislature to exempt certain funds and spending. For example, the legislature could move more than $4 billion in federal money off-budget—redefine it so it doesn’t count toward the spending limit—but mosquito districts, etc. They’d be able to shift spending to these new districts, which aren’t subject to the limits, but still retain their original spending authority. They’d then raise taxes to bring their spending back up to those limits. They’d keep the spending they’ve always had, and get still more money to spend on other things.

The Senate version allows governments to “bank” any unused spending authority for future years, which would result in dramatic single-year tax and spending increases. The state government would be able to transfer this unused spending authority to other governments, which would then raise taxes to spend it.

This constitutional amendment from the Senate Judiciary Committee is full of loopholes. It would not protect the taxpayer. Government would be open for business as usual.

Worst of all, the taxpayer would not be protected. I will continue to push for my version, over the Senate’s.

Frank Lasee (think@heartland.org) is the Republican representative for the 2nd Assembly District in Wisconsin. His Lasee’s Notes can be found on the Internet at http://www.legis.state.wi.us/assembly/asm02/news/newsletter.html. This column is reprinted, with permission, from the July 29 Lasee’s Notes.

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California Union and Legislators Receive Fleece Award

by K. Lloyd Billingsley and Lawrence J. McQuillan

The Business and Economic Studies program of the Pacific Research Institute (PRI) announced in August that it has given its California Golden Fleece Award to the California legislature for its treatment of the California Union of Safety Employees (CAUSE).

Every three months, the institute identifies state or local spending programs or regulations that fleece Californians, taxpayers, businesses, or consumers. The California Golden Fleece Awards are given for spending programs or regulations that, according to PRI, violate common-sense principles of responsible government, would be considered wasteful by people of varying political philosophies, and are well documented.

Award Number 8, given in August, went to the state legislature on behalf of CAUSE, which represents 3,200 state workers, among them milk testers, billboard inspectors, and Department of Motor Vehicles (DMV) employees who test new drivers. The union had been trying to fatten pension benefits for its members for some time. In 2002, it took a new tack, according to the PRI report.

Pension Increase Followed Political Gift

The union contributed more than $350,000 to state legislators and to then-governor Gray Davis, who responded by personally negotiating with the president of CAUSE a pension increase 25 percent higher than was given to other state workers.

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Pension Increases Followed Political Gifts

The bill reclassified CAUSE members as public safety employees, giving them pension increases normally reserved for police or firefighters. Union members benefit by $11 million in fiscal year 2004-05 and an estimated $216 million over the next 20 years.

McCall openly admitted the deal was a quid pro quo. “All this was the result of buying Gray Davis,” McCall told the Sacramento Bee for an article published May 9. “We would not have got this done if we had not shoveled a lot of money his way.” CAUSE gave Davis $100,000 three days before the bill was amended, $5,000 the day it passed, and $250,000 two weeks after he signed it.

A year later, in a development few predicted, voters tossed out Davis in a recall election and replaced him with Arnold Schwarzenegger. The new governor inherited a budget mess that calls for belt-tightening on all fronts. Efforts to impose that belt-tightening on the pension hike, however, have failed.

Legislature Avoids Bill to Block Increases

Senator Tom McClintock (R-Thousand Oaks) authored SB 9, a bill to block the pension increases for CAUSE members. The Sacramento Bee strongly backed the new legislation. Noted the newspaper, “Milk testers are not cops. Billboard inspectors don’t fight fires. California cannot afford to give them richer retirement. Tainted legislation should not be pared back a little. It should be repealed. Send SB 9, the pension repeal bill, to the governor.”

Instead of heeding the Bee’s advice, the legislature evaded action on the measure as the July 1 implementation day for the pension increases approached. Rather than act on the bill, Assembly Speaker Fabian Núñez (D-Los Angeles) returned it to the Senate—a violation of legislative rules.

The Bee blasted Assembly Democrats for turning that house into a “circus” and looking like “clowns” by avoiding debate on SB 9. The paper called out Núñez in a sharply worded editorial: “So, it’s time to stand up, Speaker Núñez. Either defend the pension boost that will give state milk testers, billboard inspectors, forensic pathologists, and deputy directors at the Department of Real Estate (among others) pension benefits that are 25 percent richer than other state workers get, or vote to rescind them.”

Pensions Already Generous

The pensions that “other state workers get” are among the most generous in the nation. Upon retirement, most California state employees annually receive 2 percent of their annual pay for every year of service. California Highway Patrol (CHP) officers get 3 percent of their annual pay for each year of service, enabling them to retire at age 50 with 90 percent of their pay. The ratio of the richer pensions is to encourage early retirement, ensuring the physical fitness of those in dangerous jobs.

CAUSE President Alan Wayne blasted former governor Gray Davis for “clowns” by avoiding debate on SB 9. The paper called out Núñez in their annual pay for each year of service, enabling them to retire at age 50 with 90 percent of their pay. The ratio of the richer pensions is to encourage early retirement, ensuring the physical fitness of those in dangerous jobs. CAUSE President Alan Wayne blasted former governor Gray Davis for “clowns” by avoiding debate on SB 9. The paper called out Núñez in their annual pay for each year of service, enabling them to retire at age 50 with 90 percent of their pay. The ratio of the richer pensions is to encourage early retirement, ensuring the physical fitness of those in dangerous jobs.

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PRI cited former governor Gray Davis and the California legislature, specifically the majority Democrats on the Assembly Labor and Employment Committee, for refusing to save the state’s taxpayers more than $200 million when they had every chance to do so.

PRI's Golden Fleece Award was awarded to call attention to the California bill as an instance of a problem endemic to all levels of government: politicians giving special benefits to well-organized, concentrated interest groups in exchange for votes and campaign contributions. Such benefits are paid for by taxes on dispersed citizens, who rarely consider it worth their effort to fight such transfers on a piecemeal basis. “The solution is to prohibit politicians from engaging in this behavior,” said Susan Martin, a public relations associate at PRI.

For more information visit the Web site of the Pacific Research Institute at http://www.pacificresearch.org.
California Governor Signs Balanced Budget with No New Taxes

by John Skorburt

The state of California has a no-new-taxes budget in place for the upcoming fiscal year. Republican Governor Arnold Schwarzenegger reached agreement with legislative leaders on July 26, and on July 27 he signed into law the new $105 billion budget.

“This is the greatest birthday gift for me that I could have,” the governor said. “I celebrated ... my 57th birthday, and here we have the budget.”

To eliminate a deficit projected earlier this year at $17 billion, Schwarzenegger and state lawmakers rejected tax increases but accepted borrowing, one-time savings, and roughly $3 billion in spending cuts. In California as well as most states, long-term borrowing is permitted to alleviate potential budget deficits, achieving a technically balanced budget.

Balanced Without Raising Taxes

“When I first presented my budget last January,” Schwarzenegger told the press, “I said that we have to have a responsible budget so that we can make California get out of the poorhouse and make it again a powerhouse. I said we need a budget that is balanced and one that does not spend more than the state takes in. I said we need a budget that makes reductions but protects essential services. I said we need a budget that moves us toward structural reform. And I said that we need a budget that does not raise taxes.

“Well, a few minutes from now I will be signing a budget that does all of those things,” Schwarzenegger said at the signing.

The signing took place at the State Capitol, where Schwarzenegger was surrounded by “representatives of law enforcement, local and state government leaders, and people gathered in the rotunda to see the event,” according to a release issued by his office.

“I want to thank the people of California because when our negotiations stalled, when the legislators started dragging their feet a little bit here, it was the people of California that started calling the legislators and saying, ‘Pass the governor’s budget.’”

Defending the Plan

“Because the Democrats didn’t get to raise taxes, they are now complaining that the budget borrows too much and creates large out-year deficits,” wrote Assemblyman Ray Haynes (R-Murietta) on August 13 for ChronWatch.com, a media watchdog site. “Their ‘out-year’ deficits were $48 billion. This governor reduced them to $4 billion, even with the Democrats’ spending demands. I believe that the end of next year’s budget process will eliminate that spending gap completely,” wrote Haynes.

“The governor kept his pledge to the people of California to pass a budget without new tax increases. This is a very good thing,” agreed Lawrence J. McQuillan, director of business and economic studies for the San Francisco-based Pacific Research Institute. “By holding the line on taxes, California will improve its position relative to other states and attract new people, new businesses, and new capital investment, spurring future economic growth.”

“We were able to produce a budget that I believe is fair,” Assembly Speaker Fabian Núñez (D-Los Angeles) told Voice of America. “It’s not a perfect budget, but one that we can stand by in a bipartisan manner.”

“The downside of this budget,” noted McQuillan, “is that it did not correct the structural imbalance—multibillion dollar deficits are projected for the next few years.

“If the governor cannot convince the legislature to cut spending significantly, the only alternative is to grow our way out of this deficit problem,” he explained. “If that’s their approach, the legislature and governor need to do more to improve California’s business climate so that economic growth will fill state coffers. A lot of work remains to be done.”

Performance Review Up Next

“California’s government is still too big, too bureaucratic, and too unresponsive to the needs of its people,” agreed Hanes. “The governor, to address those problems, has proposed the California Performance Review. The group’s report calls for sweeping reform that could save the state as much as $32 billion over the next five years.”

George Passignanto, director of government affairs at the Reason Foundation in Los Angeles, said, “The first Schwarzenegger budget accomplished the all-important goal of holding the line on taxes. In fact, by reducing the Car Tax, Schwarzenegger actually reduced the tax burden for Californians when he was told it could not be done. At the same time he launched the most ambitious effort to overhaul California state government with his California Performance Review.

“Not the State is not out of the woods yet and needs fundamental reform,” Passantino continued. “California still suffers the lowest credit rating among states in the nation. A multi-billion dollar deficit awaits lawmakers when they return next year. Each day that passes without fundamental reform, California digs itself into a deeper hole. It may well require, as Schwarzenegger has suggested, that fundamental reform will have to occur at the ballot box.”

John Skorburt (skorburt@heartland.org) is managing editor of Budget & Tax News.
New York Has Nation’s Highest State and Local Taxes

by Robert Ward

No matter how you measure it, New York State is still No. 1 in combined state and local taxes, an analysis of the most recent U.S. Census Bureau data shows. The study was released on July 24 by the Public Policy Institute of New York State, the research affiliate of the Business Council of New York State.

In fiscal 2002, New York’s overall state and local taxes averaged $4,645 for every state resident, according to the study. That figure was highest in the country, and some 48 percent above the national average of $3,149 per person.

The Census data on state and local government finances showed New York’s combined state and local taxes on individual income are more than twice the national average, as are corporate income taxes, on a per-capita basis. General sales taxes, per capita, were 11 percent higher in New York than the national average.

All of that adds up to a total additional tax burden of $28.6 billion on New Yorkers, compared to what they would pay if state and local taxes in the state were at the national average, the study noted.

Taxes Also Highest in Relation to Income

Using another common measure of taxes related to income, state and local taxes in New York averaged $111 for every $1,000 of personal income residents earned. That figure, too, is highest in the country, 26 percent above average for this measure.

The data do not include the state-level tax increases New York’s legislature imposed in 2003, nor the property tax increases most counties and school districts imposed over the past two years.

Local taxes in the Empire State are especially far out of line with all states. As of 2002, New Yorkers paid an average of $2,384 per person in property and other taxes to local school districts, municipalities, and county governments. That figure was 85 percent above the average for all states.

State Also Has High Debt

Besides high taxes, New York’s state and local government leaders have incurred a heavy debt burden on behalf of the state’s taxpayers. The institute’s analysis found state and local debt in New York adds up to $10,306 for every state resident, the second-heaviest debt burden in the nation, behind California.

High taxes and heavy debt are driven by high spending levels. The state government, school districts, counties, cities, towns, and other government units spent an average of $10,376 per capita in 2002. That figure was 46 percent above the national average. New York leads the nation in Medicaid spending and is among the national leaders in spending on education, welfare, and other programs.

The institute analyzed new data posted on the Census Bureau Web site July 15. The Census data, which include detailed financial figures for each state, are available at www.census.gov/ govs/www/estimate02.html.

Robert Ward (bob.ward@bcnys.org) is director of research for the Public Policy Institute of New York State.

Table 1: State and Local Taxes Per Capita, 2002

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U.S. Average: 3,349

New York State: 47.5%

Table 2: State and Local Taxes Per $1,000 Personal Income, 2002

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U.S. Average: 81

New York State: 29.26%

BUDGET & TAX NEWS SEPTEMBER 2004

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Illinois Finally Has a Budget

by John Skorburg

On July 24, the Illinois legislature completed the state’s budget for fiscal year 2005, which began July 1. The new budget raises taxes on businesses for the second year in a row, but several of the state’s leading business groups feared much worse.

“The Illinois business community emerged very well, considering the threats we faced to the tax climate just a few short months ago,” stated Timothy Bramlet, president of the Federation of Illinois (TFI), in the group’s July 21 TFI Report to members.

According to TFI, the budget deal includes $135 million in higher taxes on businesses, but it was passed only after businesses were brought into the process and accepted the tax increases, which were considerably less than the estimated $500 million in new fees Governor Rod Blagojevich (D) had originally deemed necessary to balance the budget.

“In the end,” the report said, “it was Speaker Michael Madigan (D-Chicago), House Minority Leader Tom Cross (R-Oswego), and Senate Minority Leader Frank Watson (R-Greenville) who formed a coalition against the governor’s call for more business tax increases.”

Business Leaders Applaud Budget

The Illinois Coalition for Jobs, Growth, & Prosperity likewise expressed its satisfaction with the final outcome. The organization’s July 26 news release stated, “Illinois working men and women should applaud the state’s final FY05 budget. Thanks to a cooperative effort between Coalition members and a bipartisan group of lawmakers, Illinois avoided a repeat of last year’s job-crushing tax increases on job providers, and began the process of retracting FY04’s increases.”

“The tax hike on business in the FY04 budget, according to the Illinois State Chamber of Commerce, exceeded $1 billion. "The business community’s efforts to bring about a budget that will give Illinois employers a fighting chance to compete were a qualified success," said Coalition Chairman Ronald J. Gidwitz. The governor’s original budget proposal inexplicably contained nearly $500 million in tax increases on employers. “When the Coalition pointed out the long-term harm to job creation last year’s business tax and fee increases had on Illinois, many lawmakers stood with us against further damage to Illinois’ economic future," Gidwitz noted. "While we applaud legislators who fought for the future of this state’s working men and women there is much left to be done to assure Illinois employers can prosper and thrive for the benefit of all.”

Tax Credits Restored

The new budget agreement completely or partially restores several tax breaks, such as the Manufacturers’ Purchase Tax Credit ($20 million), Graphics Arts Tax Credit ($4 million), and Research and Development Tax Credit ($15 million). The budget agreement also reduces Industrial Commission fees by $19 million. The state also will phase in an elimination of fee increases forced upon commercial trucks in the FY04 budget. “There is no way to view these tax-credit restorations and fee reductions as anything other than a victory for those who create jobs in Illinois,” Gidwitz stated. “Our monthly employment growth data show Illinois lags the nation and our neighboring states. Springfield and the public are beginning to understand that working men and women need help and help doesn’t mean creating disincentives for job retention and growth in Illinois. “Statistics aside, we’re in a battle with neighboring states aggressively marketing their pro-employer economic environments to our businesses,” Gidwitz continued. “While we’re not out of the woods yet, it is very encouraging that Democrat and Republican lawmakers are acknowledging that the state can help Illinois workers by improving the environment for Illinois employers.”


From left, Speaker Michael Madigan (D-Chicago), House Minority Leader Tom Cross (R-Oswego), and Senate Minority Leader Frank Watson (R-Greenville)

Washington

Continued from page 1

Among the results would be a loss of both jobs and income, according to a July 2004 report from the Washington Policy Center (WPC) in Seattle. Policy analyst Melissa Lambert Milewski, author of the study, used an economic model devised by the Beacon Hill Institute at Suffolk University. She estimates the tax increase would result in approximately 10,000 fewer jobs in the state, with the retail sector showing the largest decline.

“Our new study analyzes the intent and the effects of Initiative 884 and if passed by voters,” wrote Paul Guppy, WPC’s vice president of research, in a June 30 news release. “Initiative 884 would create a trust fund for education, annually raising about $1 billion more for preschool education, kindergarten through 12th grade, and higher education. Of the $1 billion in additional annual funding, $500 million would go to K-12 education, $400 million would go to higher education, and $100 million would go to preschool education.”

“An initiative of this magnitude deserves serious study,” said WPC President Daniel Mead Smith. “The purpose of our research is to help explain to the voters what Initiative 884 will and won’t do if it is passed. We also take a look at how the increase in the sales tax rate would impact our state’s economy.”

Higher, More Regressive Taxes Ahead

According to the Milewski study, “the state sales tax in Washington would become the highest in the nation, and would total almost 10 percent in many cities when combined with local sales taxes.”

Milewski writes, “In many cities in Snohomish County the combined sales tax would rise to 9.9 percent under Initiative 884, where the rate is 6.4 percent.”

“The initiative creates an Education Trust Fund ... but there is no guarantee that these new taxes will be spent on education.”

CLYDE BALLARD, CHAIRMAN
LEAGUE OF FREEDOM VOTERS

884. In many cities of King and Pierce Counties, including Seattle, the combined sales tax would rise to 9.8 percent.

“The sales tax increase would have the largest impact on Washington residents with the lowest incomes,” the study notes. “The state’s poorest citizens would pay an additional 0.8 percent of their income in taxes, while citizens in the highest income levels would pay 0.3 percent more.”

The study also notes that, based on the economic model, “the increase of the sales tax would also decrease disposable income in Washington by $931 million statewide.”

While lowering personal income in the state, the sales tax increase also would make housing more expensive, according to the Building Industry Association of Washington. In a May 21 statement, the group noted, “the increase in sales tax would have a devastating impact on affordable housing, since Washington State is one of only six states in the nation to levy a sales tax on the labor and materials that go into the construction of a new home. ... [An] additional Real Estate Excise Tax is levied based on the total selling price of the home.”

Education Spending Grows Faster than Enrollment

The tax increase initiative is sponsored by the League of Education Voters and supported by Governor Gary Locke (D). “Voters in Washington have said time and again they want education to be the top priority, and they want to be sure our kids are getting the funding they need to succeed. Initiative 884 dedicates resources where they are needed most and will do the most good,” claims a League statement.

But according to Milewski, “Spending on K-12 education and higher education in Washington has almost doubled in real terms between 1980 and 2000. State and local spending on K-12 education increased by 94 percent in inflation-adjusted dollars from $3.96 billion in 1980, $5.37 billion in 1990, and $7.67 billion in 2000. Yet while spending almost doubled during this time, the number of K-12 public students increased by only 32 percent.”

“The intent of the sponsors of Initiative 884 is to improve education by allocating additional monetary resources to current programs,” noted Clyde Ballard, chairman of the League of Freedom Voters. “The initiative creates an Education Trust Fund ... but there is no guarantee that these new taxes will be spent on education.”

“Backers of the measure promise tax-payers the expenditures would be target-ed, accountable, and efficient,” wrote Lynn Harsh and Marcia Richards of the Evergreen Freedom Foundation in May. “Unfortunately, they are wrong. Even if they could guarantee the money would be used for the programs proponents advertise, the programs themselves have shown little or no promise of increased academic achievement, which is the point of the initiative.”

John Skorburg (skorburg@heartland.org) is managing editor of Budget & Tax News.

INTERNET INFO

Jul 9 report from the Tax Foundation notes more and more state governments are using controversial “jock taxes” to extend state income taxes to residents of other states. The jock taxes are so named because they require traveling professional athletes and other team employees to pay income taxes in every state where games are played.

“The jock tax began with California trying to get revenge on Michael Jordan and the Chicago Bulls for beating the Lakers in 1991,” said David Hoffman, adjunct scholar with the Tax Foundation and coauthor of the new report. “Illinois fought back with a retaliatory tax the next year. Since then, many other states have joined in.”

“Today, of the 24 states with pro teams, 20 have enacted jock taxes, as have a half-dozen cities,” the report noted. (See Figure 1.)

California is one of the 20 jock-tax states. According to personal finance author Kathy Kristof, in a Jul 18 Los Angeles Times article on jock taxes, “The Detroit Pistons trounced the Lakers in the NBA Finals, but the state of California may get the last laugh when it mails tax bills to Motor City stars such as Chauncey Billups and Tayshaun Prince.”

Kristof added, “When out-of-staters land in California to work, the Golden State takes a share—9.3 percent—of their daily pay while they’re here, to be precise. And it’s not small change. Over the last decade, so-called nonresident taxes have soared nearly threefold in California, now amounting to about $1.3 billion annually.”

Other Professions Suffer Too

For highly paid professional athletes, Hoffman noted, “credits currently cancel out most of the collections.” The big waste of money is on paperwork to deal with the tax. The laws are starting to spread to other professions, however, where the pay is not so high, and hence the tax and paperwork costs can be significant.

The Tax Foundation report showed states are expanding the jock tax concept to include other types of nonresident income from non-sports-related professions. “For example, New Jersey has begun taxing visiting attorneys, and Cincinnati has levied a tax on touring skateboarders,” noted Hoffman. “Several jurisdictions have begun taxing traveling entertainers.”

“First, it was just Michael Jordan and the Chicago Bulls, then all professional athletes, and now trainers, scouts, lawyers, and even amateur skateboarders are being taxed when they leave their home state,” said Hoffman.

“This is a real slippery slope,” said Andrew Chamberlain, a Tax Foundation spokesperson. “If jock taxes continue to be applied this aggressively, more and more professionals that travel to other states are going to be subject to them. Eventually, a traveling executive would have to pay tax in every state that he visits during the year. That creates an untenable level of complexity.”

Jock Tax Revolt Rising

“Passing federal laws to restrict state taxation is a tricky issue, but it needs to be addressed for workers and companies,” said Chamberlain. “Otherwise, business travelers could face such a nightmare of multiple state tax forms

* Tax base is federal AGI with modifications.
** Tax base is federal taxable income.
that they might become reluctant to travel on business.”

The report was released to coincide with Major League Baseball’s All-Star Game in July in Houston, Texas. Texas is one of the few states with a professional sports team that does not have a jock tax, as it has no income tax. Texas players nevertheless feel a tax bite, since they pay sales and use taxes at home, as well as other states’ income taxes on the road—without the offsetting deduction on federal income taxes that can be taken by players whose states tax income. (See Table 1.)

The Tax Foundation study gives three major reasons to consider the jock tax as ill conceived:

- **The tax is poorly targeted.** Advertised as one that hits only ultra-rich athletes, the jock tax has quickly spread to many people with moderate incomes, such as trainers and scouts, and to other professions.

- **The tax is arbitrary.** Professionals in other occupations with comparable incomes over their working lives, such as doctors and corporate executives (see Figure 2), are not penalized by a “doc tax” or “exec tax,” though that is changing. New Jersey has recently started taxing visiting lawyers.

- **The tax imposes an extraordinary administrative burden on some people, who must file more than a dozen state income tax returns.**

**Athletes Make Tempting Targets**

“Professional athletes make tempting targets for state lawmakers because they represent a highly concentrated pool of wealth that can be taxed with little enforcement,” notes Hoffman. “Like other nonresidents, athletes can be taxed by states without fear of political pressure. Most important, professional athletes cannot take their business elsewhere: each professional sports league is a government-backed monopoly that decides when and where its employees will work.”

Hoffman concludes, “A reasonable approach to nonresident taxation would not include jock taxes. All employees of professional sports franchises are salaried employees who should be paying all their taxes in the states where they live or the states where their employers are located.

“This change would not cost states much revenue because credits currently cancel out most of the collections. Without the jock tax, states’ income tax systems would operate on a more principled basis. Athletes and their unfortunate moderate-income colleagues—scouts, coaches, and support staff—would not be singled out for unfair treatment, and a great deal of unproductive tax paperwork would be eliminated.”

Scott Hodge (shodge@taxfoundation.org) is president of the Tax Foundation.

**INTERNET INFO**


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**Table 1**

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**Total**

|            |            | $257,890,523 | $3,070,113          | $157,509         |

**Figure 2**

Projected Lifetime Earnings of Airline Pilots, Major League Baseball Players and NBA Basketball Players

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Virginia Town Reconsiders Cigarette Tax Hike

Protests by local businessman and public petition cause city council to rethink tax plan

by Rena Powers

In Clintwood, Virginia, population 1,549, businessman Randy Davis said he would move his tobacco business out of town if the Clintwood city council would not come away with a newly instituted 10 cents-per-pack cigarette tax. The city council decided to consider a 5 cents-per-pack tax instead and promised to hold a public hearing on the proposal. The reduction was passed on August 16, and the tax was cut from $.10 to $.05.

Davis, owner/operator of Davis Tobacco in Clintwood's West End neighborhood, told the city council on July 13 it was “running business out of town.” He said, “You all don’t know what you are doing, but you are hurting every business in town.”

Approximately 15 people attended the meeting to support Davis. He presented a petition he said was signed by more than 800 people who opposed the tax. The cigarette tax took effect July 1, the start of the city's 2004-05 fiscal year. The ordinance required the tax to be paid on every cigarette sale in town.

The city council had begun talking about a cigarette tax in September 2003 as a way to generate more money for the town. It held a public hearing the following month. Davis, who owned the West End building in which Davis Tobacco was located, along with the lot it sits on, and Shawn Baker, who operated the business at that time, voiced opposition to the proposal. The council tabled the issue at that time.

Davis noted. "We thought this thing was dead and didn’t worry about it any more,” Davis noted.

But the city council reconsidered the tax while drafting the 2004/05 budget. The council advertised the proposed tax with its budget, and the bill passed.

Davis said he didn’t see the notice and only found out about the tax ordinance after it passed and after he had remodeled his building and invested in inventory. “It is stuff like this that runs people out of Clintwood,” Davis told the city council. "It is no wonder people are so aggravated with their council. You won’t tell the people anything.”

Thinking the cigarette tax had been defeated, Davis said, he bought the business in May 2004, when Baker moved to Richlands. “We thought this thing was dead and didn’t worry about it any more,” Davis noted.

Following Davis’ comments, councilman Roy Fletcher suggested the city council consider a 5 cents-per-pack cigarette tax. Danny Lambert offered a second, and the motion to consider the idea passed unanimously.

In an interview, Davis said he needs the town’s support for his business to survive. “Do you want me out of town as a business, or do you want me to stay?” he asked. “I need council’s support and I need the citizens of this town and county. You are messing with my livelihood,” Davis added. “If council doesn’t do away with the tax, people will start buying tobacco products outside town limits, and stores that sell the products will suffer.” Davis said.

“We are taxed to death. We need to try to get business in this town and hang on to what we have,” Davis said. “The only way to rectify a wrong is to make it right,” he added.

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Rena Powers is a staff writer for Coalfield.com, which includes the following newspapers: The Coalfield Progress, The Dickenson Star, and The Post. She can be reached by email on the Coalfield.com Web site at rbaird@coalfield.com.

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JOIN US ON SEPTEMBER 23 FOR TWO AMAZING EVENTS

Heartland Emerging Issues forum

Robert Novak  John Fund  Jay Lehr  Conrad Meier  Lee Walker

 ABOUT THE FORUM

The Emerging Issues Forum is a day-long conference featuring panel presentations by public policy experts from the nation’s leading free-market think tanks and advocacy groups. The focus is on anticipating issues and ideas that will play major roles in domestic public policy debates in 2005 and beyond.

LUNCHEON SPEAKER: JOHN FUND

John Fund writes the weekly “Political Diary” column for the Wall Street Journal’s OpinionJournal.com. A long-time proponent of free markets and individual liberty, Fund is marking 20 years with the Journal.

TICKETS

Single tickets - Members
$56 in advance; $60 at the door

Single tickets - Nonmembers
$70 in advance; $75 at the door

Reserved Tables - Members
(Seat 10) $800

Reserved Tables -Nonmembers
(Seat 10) $1000

TIME & LOCATION

Thursday, September 23, 2004
10:00 a.m. - 5:00 p.m.
(registration at 9:30 a.m.)
Includes buffet lunch
The Art Institute of Chicago -
The Millennium Park Room
111 South Michigan Avenue
Chicago, Illinois
(enter 230 South Columbus Drive)

The Heartland Institute 20th Anniversary Benefit

Robert Novak  John Fund  Dave Padden  Joseph Bast  Tim Dorsey

ABOUT THE BENEFIT

The Heartland Institute is celebrating its twentieth anniversary with a reception and dinner on Thursday, September 23, in the Grand Ballroom of the Chicago Hilton Hotel, 720 South Michigan Avenue. We hope you will join us!

KEYNOTE ADDRESS: ROBERT NOVAK

Novak is a nationally syndicated columnist and host and co-executive producer of CNN’s political roundtable, “Capital Gang.” He is also an occasional co-host on CNN’s “Crossfire” program and often appears as an interviewer on NBC’s “Meet the Press.”

TICKETS

Single tickets - Members
$70 before Sept. 1; $100 after Sept. 1;
$125 at the door

Single tickets - Nonmembers
$100 before Sept. 1; $125 after Sept. 1;
$150 at the door

Tables (Seat 10)
Platinum $10,000  Gold $7,500
Silver $5,000  Reserved $2,500

TIME & LOCATION

Thursday, September 23, 2004
5:30 pm to 10:00 pm
Chicago Hilton Hotel
720 South Michigan Avenue
Chicago, Illinois
For hotel reservations call 312/922-4400

REGISTER ONLINE AT WWW.HEARTLAND.ORG OR CALL 312/377-4000
Florida Drops Gas Tax for Month of August

by S.T. Karnick

The state of Florida decided to give its taxpayers a couple of breaks during the month of August. For 31 days, the state cut its sales tax on gasoline, to the delight of local drivers. The sales tax on some other items was lowered as well in late July.

The state legislature and Governor Jeb Bush (R) approved House Bill 237, the Motor Fuel Tax Relief Act, in May, to cut the state’s gas tax for one month. The tax cut of 8 cents per gallon ran from 12:01 a.m. on August 1 and ended at midnight on August 31. It did not apply to diesel fuel.

In a separate action, the governor and legislature also cut the sales tax on books, clothing, and shoes that cost $50 or less, and on some school supplies costing $10 or less, effective from July 24 to August 1. According to a state-based taxpayer advocacy group, Florida Tax Watch, the legislation is expected to save Floridians hard-earned money. "This is the right thing to do to help Florida drivers to keep more of their hard-earned money," said Kevin Bakewell, president of AAAAuto Club South, to the Orlando Business Journal.

Drivers Welcome August Tax Relief

According to a report by Georgia East in the August 2 South Florida Sun-Sentinel, one driver she interviewed had purposefully refrained from refilling his tank on Saturday evening, July 31, deciding instead to wait until Sunday to take advantage of the 8 cents-per-gallon tax break.

"I usually never go below half a tank," said Pete Vargas in East’s article. The fuel gauge of his car was on empty at the BP Connect Amoco station on Universal Drive in Davie. "I waited until today since I knew about the change," Vargas told East. When the pump stopped at $28.19, Vargas seemed pleased and said it was worth the wait, according to the Sun-Sentinel article. Usually he pays almost $32 to fill up, he told the reporter. "This is the tax relief is expected to save Florida drivers an estimated $60 million," Florida Attorney General Charlie Crist said. "My economic crimes division will conduct spot checks of the state’s 400 gasoline wholesalers to verify that their invoices reflect the 8 cents-per-gallon decrease." Crist urged consumers to use the attorney general’s toll-free hotline to report retailers they believed were not passing along tax savings. They could also file complaints through the Attorney General’s Web site.

Retailers Complying

"The numbers we see are encouraging; it’s clear that the majority of retailers are complying with the Motor Fuel Tax Relief Act of 2004," said Kevin Bakewell, senior vice president for AAA Auto Club South, to the Orlando Business Journal as reported on August 5. "The prices are coming down and the savings, hopefully, will continue to move in the right direction toward the 8 cents that the legislature has guaranteed." According to the Sun-Sentinel, gas station owners seemed to be pumping up news of the tax relief, displaying bright yellow stickers that read, "We participate in Florida’s Gasoline Tax Cut."

The sales tax holiday on the other items was estimated to have saved shoppers $35.5 million.

"The gas-tax relief is expected to save Florida drivers an estimated $60 million," Florida Attorney General Charlie Crist said. ... The sales tax holiday on the other items was estimated to have saved shoppers $35.5 million.

Kansas

Continued from page 1

Chicago Sun-Times, a “Kansas revolution” continues.

“Key Republican state legislators in Kansas who supported a state tax increase were defeated in Tuesday’s primary by challengers who signed the anti-tax pledge of the Americans for Tax Reform (ATR),” wrote Novak.

“The future of the Republican Party belongs to those who support lower taxes,” wrote East. When the pump stopped at $28.19, Vargas seemed pleased and said it was worth the wait, according to the Sun-Sentinel article. Usually he pays almost $32 to fill up, he told the reporter. "This is the tax relief is expected to save Florida drivers an estimated $60 million," Florida Attorney General Charlie Crist said. "My economic crimes division will conduct spot checks of the state’s 400 gasoline wholesalers to verify that their invoices reflect the 8 cents-per-gallon decrease.”

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The sales tax holiday on the other items was estimated to have saved shoppers $35.5 million.

“This is the very price-competitive market,” he told the paper. “The question is, after this month what will happen?”

The sales tax holiday on the other items was estimated to have saved shoppers $35.5 million. According to a report in Florida Today by Brian Monroe and Scott Blake, “Some local retailers saw sales surge as much as 50 percent during the nine-day Florida sales-tax holiday, ... buoyed by a back-to-school rush and, at the tail end, a tax break on gasoline as well.”

This is the first time Florida has had a sales tax holiday since 2001. The state also held sales tax holidays in 1998, 1999, and 2000.

S.T. Karnick (karnick@heartland.org) is senior editor of Budget & Tax News.

Defeated incumbents included Bill Kassebaum and Cindy Neighbor, the two GOP legislators who led the recent, unsuccessful push for higher state taxes.

Kassebaum is the son of a former GOP Kansas congressman, unsuccessfully challenged incumbent fiscal conservative John Fabel in the GOP primary.

“Defeated incumbents included Bill Kassebaum and Cindy Neighbor, the two GOP legislators who led the recent, unsuccessful push for higher state taxes.”

Kassebaum is the son of former U.S. Senator Nancy Kassebaum and the grandson of 1936 Republican presidential candidate Alf Landon. "This is the latest chapter of a bitter internal ideological battle that has been waged in the Kansas Republican Party for many years," wrote Novak. Two years ago, Bill Kasseebaum had defeated Republican incumbent State Representative Shari Weber in a primary after which the winner did not face a Democrat opponent in the general election. Weber won the rematch this August, with 53 percent of the primary vote.

Kassebaum’s fellow freshman house member Neighbor was soundly defeated by Mary Cook in their third primary contest.

Voters Ousted Tax Committee Chairman

The chairman of the state senate tax committee, David Corbin, was over-whelmingly defeated in his primary by Augusta realtor Peggy Palmer, receiving only 37 percent of the vote. In 2002, Corbin had been a leader in passing a statewide tax hike on sales, gasoline, cigarettes, and businesses, costing taxpayers more than $300 million a year.

Palmer attributed her victory to voters’ uneasiness over taxes. “People were tired of tax increases. ... People wanted accountability.” Palmer also believes her victory was due to “unhappiness over spending growth” and the “incumbents’ growing inability to respond to the [budget and tax] problems.”

One incumbent, the fiscally conservative State Senator Susan Wagle, won by a landslide over former gubernatorial candidate Bob Knight, who was endorsed by the powerful teachers’ union but received only 36 percent of the primary vote in Wagle’s east Wichita district.

Freshman house member and tax hike advocate Rob Boyer took on fiscally conservative Kay O’Connor in a District 9 race in suburban Johnson County next to Kansas City, where O’Connor’s defeat was widely predicted. After winning with 54 percent of the vote, O’Connor happily borrowed a phrase from Mark Twain, saying, “The rumors of my political death have been greatly exaggerated.”

Karl Peterjohn (@kPeterjohn@prodigy.net) is executive director of the Kansas Taxpayers Network.
Agricultural Trade Talks Move Forward in WTO

by John Skorburg

Global trade in agriculture received a big boost from the World Trade Organization (WTO) on July 31, when member countries meeting in Geneva, Switzerland, voted 147-0 to approve a “framework for future progress” in negotiations to free up international agricultural trade.

The developed countries are now on board, and the developing countries have agreed to future talks. At stake is the lowering of high domestic support payments in developed nations and high agricultural tariffs in developing countries, which currently average around 60 percent.

According to the Bridges Weekly Trade News Digest, a publication of the Geneva-based International Centre for Trade and Sustainable Development, “After almost a year of stalled negotiations following the breakdown of talks at the last Ministerial (2003) meeting in Cancun, members had set the end of July [2004] as a deadline for agreeing on a negotiating framework package. The 31 July agreement has allowed countries to send an important political message that the Doha Round is still alive.” The Doha Round of international trade agreement negotiations began with a full Ministerial meeting in Qatar in November 2001.

Tariff Cuts Expected to Benefit U.S. Farmers

The American Farm Bureau Federation, the world’s largest farm organization, was quick to comment on the progress. In an August 2 press release, Farm Bureau President Bob Stallman was upbeat concerning the turn of events, which he hopes will lead to lower tariffs and more trade around the world.

“The [July 31] framework text adopted by the WTO General Council will continue the process of negotiation toward the goal of expanding world markets for American agriculture,” Stallman said. “The commitments by both developed and developing nations to substantial tariff reductions and deeper cuts from higher tariffs will lead to expanded market access for U.S. farmers and ranchers.”

Stallman also was pleased with progress toward agreement on elimination of export subsidies, used mostly by the European Union to compensate farmers in excess of market prices, and the continuation of “food aid” from the United States to needy countries.

“The export competition measures in the text will benefit American farmers and ranchers by eliminating export subsidies and bringing rules to bear on the market-distorting operations of state trading enterprises. We will also preserve the ability to provide food aid to those in need,” Stallman noted.

New Deal for World Agriculture

According to a release from the U.S. Trade Representative’s Office on July 31, the new deal for world agriculture includes:

- An ambitious and balanced plan for reform of trade-distorting agricultural subsidies, elimination of agricultural export subsidies, and substantial improvement in market access for all farm products.
- In cutting farm tariffs, all countries other than the least developed will make a contribution, and there will be deeper cuts in higher tariffs.
- Substantial improvement in market access applying to all agricultural products, even “sensitive” ones such as sugar, cotton, and milk.
- Allowing developing countries lesser tariff reduction commitments. The text recognizes the vulnerability of poor, subsistence farmers as a matter of concern for further discussion.
- Trade-distorting forms of domestic support for agriculture will be cut substantially, with caps on support levels for specific commodities and cuts in the overall level of trade-distorting support.
- In the first year of implementation, each member’s total trade-distorting support will be cut by 20 percent from currently allowed levels, an amount equal to the cut of these subsidies during the entire Uruguay Round, where agricultural tariffs and subsidies were initially cut by WTO consensus in the mid 1990s.
- The agreement maintains the viability of food aid programs for humanitarian and development needs.

Much Negotiation Remains

“The Doha Round is back on track,” said Trade Commissioner Pascal Lamy of the European Community, but he injected a note of caution, saying, “We have only walked half of the way.” Lamy’s sentiments were echoed by U.S. Trade Representative Robert Zoellick, “We have laid out a map for the road ahead,” Zoellick said, but “the speed limits for how far and how fast we will lower trade barriers” remained to be negotiated, as reported by Bridges.

Bridges reported that at least one international nongovernmental organization remained skeptical. Celine Charveriat of Oxfam International, a confederation of development, advocacy, and relief agencies working to fight poverty around the world, lamented the lack of “cast-iron commitments” and a “clear timeline for reform.” Charveriat said, “If rich countries do not immediately put their promises into action, this declaration will become just one more stage in a long journey of disappointment.”

Representatives from developing nations, however, were more forgiving of the paucity of firm commitments.

“This more than adequately addresses India’s concerns,” said that country’s commerce minister, Kamal Nath, referring in particular to the provisions for future reductions in domestic price supports and treatment of developing countries. The Chinese ambassador to the WTO, Sun Zhenyu, said, “Generally speaking, the framework is not bad, though the developing countries are not [yet] fully satisfied.”

According to Bridges, “Members postponed the 1 January 2005 deadline for concluding the talks to an as-yet unspecified date, at least until the sixth WTO Ministerial Conference to be held in Hong Kong in December 2003.”

John Skorburg (skorburg@heartland.org) is managing editor of Budget & Tax News.

Key Opportunities for U.S. Farmers and Ranchers in WTO Framework for Future Progress

- Major cuts in foreign tariffs on U.S. farm exports.
- Expanded market access for all U.S. farm products through tariff cuts and quota expansion.
- Elimination of agricultural export subsidies, which are used by most overseas European competitors of U.S. farmers.
- New disciplines on state trading enterprises such as the Canadian Wheat Board.
- Harmonization of trade-distorting farm support programs, with Europe and Japan subject to deeper cuts because of their higher levels of support.
- Greater cuts in export domestic support for agriculture in the first year of the coming agreement than during the entire Uruguay Round.
LSAs

Continued from page 1

May 2004), LSAs can be used for any type of saving and will allow an individual to contribute up to $5,000 a year and make penalty-free withdrawals at any time—with no holding period. Hence, participants will be able to save in one tax-favored account for any purpose, including their children’s education, home purchasing, health care needs, or to start their own business.

RSAs [HR 4714, introduced in June 2004] will allow individuals to contribute up to $5,000 a year (in addition to the amounts contributed to an LSA) and work like a Roth IRA. The proposal greatly simplifies existing IRA rules, encouraging more savings and supplementing Social Security and labor earnings in retirements.

“To supplement Social Security’s modest benefits, a healthy retiree individual or couple will need, in today’s dollars, at least $20,000 per year—an income that could be reasonably expected from a retirement annuity of $250,000.”

Fabry: Why are these new savings vehicles needed?
Clifton: With Social Security facing a looming insolvency, younger workers will need to improve their personal savings to a greater degree. To supplement Social Security’s modest benefits, a healthy retiree individual or couple will need, in today’s dollars, at least $20,000 per year—an income that could be reasonably expected from a retirement annuity of $250,000. If we use those assumptions for a retirement annuity of less than $50,000, that household can expect an annuity income of around $4,000 per year, one-fifth [of what will be] needed for a comfortable retirement. This difference becomes more exacerbated if either spouse requires extended nursing home care or assisted living.

Fabry: What is causing this low savings?

Clifton: While many demographic factors come into play, both double taxation of savings and current saving incentives’ complexities have significantly hindered American savings. Under the current income tax system, income is taxed when earned. If income is used for consumption, no additional federal tax is generally paid for goods and services. If that income is saved, there is another layer of tax on the earnings of the savings. Taxing dividends of a stock and capital gains on assets that have increased in value over time, when the assets are sold, are two examples. LSAs and RSAs would remove the bias between consumption and savings, taxing income once and only once.

Furthermore, complexity resulting from restrictive rules on eligibility, contribution amounts, and withdrawals also contributes to lower personal savings. According to former Assistant Secretary of the Treasury Pam Olsen, contributions to IRAs rose nearly tenfold between 1980 and 1986, from $4 billion to $38 billion. When Congress restricted IRA contributions’ deductibility in 1986, the IRA contributions level fell sharply and never really recovered.

Previous contributors were excluded from participation, [which accounted for] a portion of this decline, but savings also dropped among families retaining full eligibility. Even though the change in law did not affect them, eligible family participation declined by 40 percent between 1986 and 1987. The number of IRA contributors with income of less than $25,000 dropped by 30 percent in that one year.

Fabry: Will the Bush proposal generate new savings, or shift existing savings to tax-advantaged accounts?

Clifton: The new LSAs will clearly generate new savings, especially among individuals who are currently not saving. Younger and lower-income workers are less focused on saving for retirement than saving for a house, their children’s educations, or catastrophic expenses. As such, individuals will have the ability to save for expenses they cannot currently consider without a double tax or withdrawal penalty [if they use the savings] for near-term expenses. This adds new savings.

More savings for all Americans will result from simplification. As explained above, the existing programs’ complexity and contribution limits led to a declining number of people and amounts saved. This decline even occurred among people who remained completely eligible with no program changes. A more simplified approach, as in the proposed LSAs and RSAs, will add more contributors and savings amounts.

Fabry: When you speak of simplification, does that also mean tax simplification?
Clifton: Without question. Today, there are six different savings accounts with confusing and seemingly endless rules. The IRS publication explaining individual retirement accounts is now 104 pages long. In 1982, the publication was 12 pages. LSAs and RSAs are a sure way to significantly simplify the tax code.

Fabry: And with tax simplification follows tax reform, right?
Clifton: Exactly. People talk of a flat tax or a national sales tax. LSAs and RSAs do all the heavy lifting needed for major tax code changes. With the Death Tax being phased out, the removal of the double taxes on savings and investment sets you up with the domestic end of fundamental tax reform being completed. Once completed, move on to fundamental changes to the international portion of the code and removal of the special-interest tax deductions, and “Bang!” You have the Armey/Forbes Flat Tax.

Fabry: What are the prospects for passage?
Clifton: It all depends on presidential leadership. If Bush talks out strongly for it in his convention address and wins, you can bet this will be the 2005 Bush tax cut. He cuts taxes once a year. This will be it, while moving toward major Social Security system reform. If the issue is more obscure in the campaign, though, then we will have to build grassroots support, which we are set to do.

Sandra Fabry (sfabry@atr.org) is an associate with Americans for Tax Reform.
President's Personnel Office Shows Privatization Gains

by Geoffrey F. Segal

No one thought bringing competition to Washington, DC would be easy. Upon entering office, President George W. Bush issued the President's Management Agenda, a 64-page Office of Management and Budget (OMB) report aimed at making government more efficient—a dramatic reform proposal to put performance ahead of patronage in the federal government. One goal included changes in the strategic management of human capital—government employees.

Some agency heads are out in front touting the successes and rallying the troops, and few are more visible than Kay Cole James, director of the White House’s Office of Personnel Management (OPM). OPM has generally supported competitive sourcing and also has backed other personnel management reforms outlined in the President’s Management Agenda. Three years into the effort, the program’s successes are real but decidedly modest.

Agency Achieved “Satisfactory” Grade

In all, OPM, which serves as the federal government’s human resources manager, has completed 11 competitions for outsourcing, resulting in a projected savings of $52.4 million over five years in the human capital segment of the federal budget.

The outsourcing efforts of the office reflect the mixed success so far of the president’s plan to bring competition to Washington. In the past few months, for example, OPM completed several competitions for private provision of network management, employee benefits, and mail services. James noted at the time, “We work for the American taxpayers, and it is incumbent upon us to ensure that we spend their money wisely, giving them the best value for their hard-earned dollars.”

As we strive for excellence, we have a responsibility to examine every option to do the work of the American people, so we welcome competitions between the federal government and private sector to perform activities that are not inherently governmental,” James said. “The result is the best value for the taxpayers of this great nation.”

In 2004 OPM also completed competitions for its billing and collection activities and trust fund and administrative accounting. It also announced plans for a competition for filling clerical, technical, and administrative support positions.

The agency also awarded a contract to operate the federal career Web site, “USAJobs.” TMP Worldwide Government Services, the same company that operates the most popular online job search site, Monster.com, took over the government’s central jobs Web site, which averages 17,000 job announcements a day, earlier this year.

OMB’s latest scorecard detailing the progress of the president’s management agenda, released earlier this year, cited OPM as one of three to achieve a “green”—or “satisfactory” grade on its competitive sourcing initiative.

Turf War Impeded Progress

OPM’s competitive sourcing agenda has made little progress in one very important area: human resources. OPM directly competes with private-sector vendors in providing human resource (HR) services, and it has not opened those functions to competition.

In fact, OPM tried to prevent federal agencies from posting jobs on their own Web sites and proposed instead to have agencies post jobs on the government’s central jobs Web site. Monster.com, which averages 17,000 job announcements a day, earlier this year.

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Office of Personnel Management (OPM) Director Kay Cole James

Clearly, opening OPM’s HR services to competition would show a greater commitment to the president’s management agenda. Doing so would drive improved performance and efficiency of federal HR programs by helping agencies fill their personnel needs, create better public service and save taxpayers money.

Geoffrey F. Segal (geoffrey.segal@ reason.org) is director of privatization and government reform policy for the Reason Foundation.

Federal Transportation Screeners Raise Conflict of Interest Issue

by Robert W. Poole, Jr.

July articles in the Wall Street Journal and Los Angeles Daily News identified passenger complaints about “stolen or damaged items from checked baggage as the number one air traveler complaint,” noted that Transportation Security Administration (TSA) gets complaints at “nearly three times the rate of the airlines.”

Several stories at the end of June reported screener firings over theft from checked luggage: Four were canned at Ft. Lauderdale International and 13 at New Orleans International.

Other stories reported allegations by screens in Buffalo, Houston, LaGuardia, and Tampa that they were ordered to let unscreened bags through, so as not to delay flights.

In the Houston case, Associated Press reported that two internal TSA investigations “found no evidence that unscreened luggage was loaded onto passenger jets.”

“Combining the provision of security services with the regulation of security creates a built-in conflict of interest. Congress created that conflict, and it’s incumbent on Congress to fix this mistake.”

So, I guess that settles it, right? Not quite. These were investigations internal to TSA itself. As with any individual or organization, when a government agency is charged with serious misconduct, should we really be satisfied if it gives itself a clean bill of health?

There are two problems with this picture. One is perception. The whole idea of “federalization” of the airport security process was to give the public warm, fuzzy feelings of safety, because our government was in charge. But if TSA is perceived to be covering up its failings, what happens to those warm, fuzzy feelings?

Even worse, what if this is more than just a problem of perception? There is a natural tendency in all large, bureaucratic organizations (public and private) to defend themselves, and always a temptation to cover up embarrassing lapses. That’s why we often design institutions with arms-length watchdogs, rather than letting the watchdogs watch themselves.

All of which is to say, once again, that combining the provision of security services with the regulation of security creates a built-in conflict of interest. Congress created that conflict, and it’s incumbent on Congress to fix this mistake.

Robert W. Poole Jr. (bohp@reason.org) is director of transportation studies and founder of the Reason Foundation.
Kerry's Tax Plan: Too Much Tinkering

by Peter J. Sepp

In offering a plan purporting to “create 10 million jobs,” presidential candidate Senator John Kerry (D-Massachusetts) has become the latest of many national office seekers to embrace the fanciful notion that mere tinkering with the tax code can outsmart the free market. History proves otherwise.

The three biggest economic expansions of the twentieth century, under Presidents Coolidge, Kennedy, and Reagan, were preceded by straightforward reductions in federal tax rates. Supposedly, Kerry’s very modest nod in that direction (a cut in the corporate tax rate of 1.75 percentage points) would be followed by a harsh increase—new tax penalties on businesses that, in his words, “take jobs overseas.”

[A] recent Wall Street Journal investigation discovered foreign firms send more office work here than our companies send overseas—contributing to a net value for the American economy of $54 billion.

Outsourcing Creates Net Gain in U.S. Jobs

Supporters of Kerry were buoyed by a plan purporting to “create 10 million jobs.” But underneath the billions and trillions of dollars of projected job creation lies the rather calamitous result that “job creation” and focuses instead on 

Tax Hikes Would Hurt Small Businesses

One irony of Kerry’s jobs plan is that another Kerry proposal would further undermine its already minimal potential, by proposing to raise taxes on households in America making more than $200,000. In the Left’s fairy-tale world, robber barons and madcap heiresses populate this income bracket, but the statistics tell a quite different story. According to Congress’s own Joint Economic Committee, more than two-thirds of all personal income tax returns in the top bracket (which is actually higher than Kerry’s proposed income threshold) report at least some earnings from a sole proprietorship, partnership, or “S” corporation.

Kerry supporters counter that most full-time small businesses report incomes much lower than $200,000, but creating a tax barrier to their upward mobility certainly won’t help them raise the capital to get to the next level. Starving businesses whose owners have already reached this plateau isn’t any smarter as a policy, since by their nature such firms are homegrown enterprises that provide U.S.-based jobs.

Restructuring the tax system itself could also free up far more in direct resources for job creation than Kerry’s plan could ever hope to provide. By the Tax Foundation’s estimate, in 2002 businesses (and by inference their customers) were forced to bear more than half of the $194 billion economic burden of complying with the federal tax code.

Other Areas Ripe for Reform

One place to begin such a reform would be by ditching antiquated laws allowing the IRS to tax the foreign profits of U.S. companies. Most other countries avoid such a policy. As corporate tax rates were thereby reduced, Congress could clear away the thicket of special-interest deductions and credits that thwart honest competition among businesses.

Even better, Congress could scrap the entire tax code and replace it with a single-rate, national, retail sales tax—and allow Americans to see the true cost of the federal government, an entity whose questionable bookkeeping exceeds that of any corporate behemoth.

Like Presidents Coolidge, Kennedy, and Reagan, the first presidential candidate who gets past mere slogans about “job creation” and focuses instead on removing the barriers to productive economic activity could win a new age of prosperity for America—not to mention the next election.

Peter J. Sepp (psepp@ntuf.org) is vice president for communications for the National Taxpayers Union.
Federal Highway Bill Still in Limbo

by Paul J. Gessing

Throughout the summer, 75 U.S. House and Senate conferences—the largest conference committee in federal government history—have been working feverishly to hammer out a new, six-year federal transportation spending plan. Agreement on the bill’s final size and shape has remained elusive, and Congress has instead passed a series of temporary “continuing resolutions” that keep highway funding at existing levels. As a result, this year’s highway bill cost $218 billion over six years and expired on September 30, 2003.

Bush Veto Scare Keeps Price Tag Down

President Bush’s repeated veto threats have dramatically reduced the bill’s potential price tag. House Transportation Committee Chairman Don Young (R-Alaska) originally asked for $375 billion over six years. The price tag was reduced to $294 billion, or $81 billion less than the Senate’s $375 billion bill. Either amount would be a higher price tag than the $256 billion Bush desires and may still draw his veto. “A successful veto would be a big win for taxpayers and a huge pre-election boost for fiscal responsibility,” said National Taxpayers Union President John Berthoud. “However, if Bush caves to the big-spenders in his own party, it could cause the President’s base to stay home in droves on Election Day. It is quite possible that, in order to stave off such an intra-party showdown, Congress will postpone the final decision until 2005.”

According to USA Today, Bush is not without supporters in the dispute. Ronald D. Utt, senior research fellow at The Heritage Foundation, said the president’s advisors were “absolutely correct” in threatening a veto of a bill that perpetuates what Utt called the “nation’s largest spoils system.”

Earmarks a Huge Problem

Several unresolved issues lurk beneath the surface, the most urgent of which is the number of earmarked projects—those that are specifically indicated for specific purposes—in the bill. The House version was introduced with a record-breaking 2,800 earmarks, and hundreds more were added on the Senate floor. In 1999, legislation introduced in Congress with a net reauthorization of the federal highway program contained just 10 earmarks.

Critics of earmarking argue it increases spending by pushing projects that will date the data behind politically-favored tell groups and individuals, a process known as pork-barreling. “Taxpayers and motorists alike would be better off if earmarks were eliminated, and along with them the political favoritism that taints the funding process,” noted Berthoud. “On the other hand,” added Bethoud, “the proposed creation of tax-exempt private-activity bonds for road building contained in the Senate version of the bill is an initiative that taxpayers can support.”

Trouble Over Toll Roads

For fiscal political purposes, President Bush proposed that Congress allow a limited number of highway projects involving private-sector partnerships to issue up to $15 billion of tax-exempt bonds. “The proposal is a mistake that taints the process funding,” noted Berthoud. “The plan to allow the use of such bonds for private-ly built and funded toll roads is sensible only as long as these bonds are free of any restrictions, particularly Davis-Bacon wage rules that inflate construction costs.”

Tolling also has been a hot topic during recent highway bill negotiations. Tolls can serve as powerful catalysts for moving the public sector toward a market-based economic model, but if used for non-highway purposes, tolls could simply turn America’s roads into cash cows to be milked by big government for spending in other areas of the federal budget.

With that dynamic in mind, Representative Mark Kennedy (R-Minnesota) offered an amendment to the House bill that would allow tolls only on new voluntary-use lanes, with revenues dedicated to new highway capacity. The tolls would be removed once the roads were completely paid for. If the federal government seeks to access new revenue sources, Kennedy argued, motorists should benefit from additional capacity instead of being forced to pay tolls for existing capacity. “If Congress chooses to go ahead and act this year, hopefully it will make palatable lemonade out of some very sour lemons by adhering to the president’s funding request, by tossing out the thousands of wasteful and inefficient earmarks, and by backing the carefully crafted tolling policy contained in the House bill and bonding provisions in the Senate bill,” concluded Berthoud. “If, on the other hand, action is delayed once again,” said Berthoud, “Congress should seize the opportunity to defeder- alize transportation policy entirely, and better serve taxpayers as a result.”

Kerry

Continued from page 1

Independent candidate Ralph Nader was at 2 percent. The survey by the 350,000-member National Taxpayers Union (http://www.ntu.org) is director of government affairs for the 350,000-member National Taxpayers Union.

Tax Plan a Possible Drawback

Suggesting Kerry’s tax plan would hold back his electoral appeal, the nonpartisan National Taxpayers Union Foundation (NTUF) released a detailed analysis of Kerry’s fiscal agenda on July 12. The report, “One Hand In Your Pocket: How Kerry’s Campaign Pledges Stand to Cost Taxpayers Billions,” concludes Kerry’s current plan to raise taxes will not improve the budget picture for taxpayers. “For overtaxed and deficit-warey Americans, future prospects for lower federal spending are bleak indeed,” said Peter J. Sepp, vice president in communications at NTUF. “Despite adding spending caps to his agenda, Kerry’s campaign promises could still hit taxpayers with a $226 billion blow, on top of the 29 percent spending run-up under George W. Bush’s term.”

The study systematically examined the fiscal policy implications of Kerry’s agenda, using campaign and third-party sources (such as the Congressional Budget Office) to assign a cost to each budget proposal the candidate had offered. The study also relied on NTUF’s BillTally project, a computerized accounting system that has, since 1991, tabulated the cost or savings of every piece of legislation introduced in Congress with a net annual impact of $1 million or more.

“Despite Kerry’s efforts to outflank Bush on the deficit issue and portray him- self as the more fiscally responsible candi- date, the data behind Kerry’s rhetoric tell a different story,” said study author Drew Johnson, an NTUF policy analyst. “Enact- ment of Kerry’s ‘revised’ spending agenda in its entirety would still mean higher taxes, a larger national debt, or likely both.”

$6 Trillion Spending Increase Over Four Years

The study reported Kerry’s plan would include major new spending that would require significant federal tax increases, the need for which he has not yet acknowledged:

Based on Kerry’s promise to “pay for” every program he has proposed, U.S. tax- payers would each face an average $2,206 tax increase during Kerry’s first year in office, and a cumulative increased tax bur- den of $6,066 over his first term.

If Kerry’s policy agenda were enacted in full, annual federal spending would rise by at least $226.125 billion during the first year of a Kerry presidency alone.

Despite the candidate’s promise of nearly $36 billion in spending cuts, $734.62 billion of Kerry’s spending agen- da remains unaccounted for and presum- ably would have to be passed on to Amer- ican taxpayers in the form of increased taxes or greater federal debt. Kerry has promised nearly $115 billion in new social welfare, foreign aid, energy, and environmental spending dur- ing his first term, including $2 million to restore voting rights to felons.

According to BillTally and VoteTally figures included in the July 12 report, Kerry sponsored or cosponsored $1.82 billion worth of new federal spending legis- lation in 2003 and voted to increase fed- eral spending long-term by an additional $466.5 billion during 2002. Federal spend- ing actually increased by $147 billion in both 2002 and 2003, for a total two-year increase of just under $300 billion. Vote-
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