Bush Calls for Historic Social Security Reform

Would allow workers age 50 and under to privately invest

by Sandra Fabry and Steve Stanek


Bush used his annual State of the Union speech on February 2 to call for sweeping changes to the nation’s Social Security system, a call that has been met with approval, doubt, and opposition from lawmakers and interest groups.

Bush also pledged to cut the federal budget deficit in half by 2009 and “give this nation a tax code that is pro-growth, easy to understand, and fair to all.” He delivered the remarks barely one week after the Congressional Budget Office released figures projecting this year’s federal budget deficit would hit $427 billion.

Bush focused the address on Social Security reform, the centerpiece of which is a plan to allow younger workers to invest some of their payroll tax contributions in stocks and bonds. Bush warned lawmakers that, without action, the Social Security system is on a path toward insolvency, the result of the nation’s aging population.

by Steve Stanek

The state of Texas’ recent $10 billion budget crisis could have been prevented if the state had implemented a Taxpayer’s Bill of Rights amendment in the 1990s, according to a study by the Americans for Prosperity Foundation. The report, “A Taxpayer’s Bill of Rights (TABOR) for Texas,” was released January 6. It shows that if such a bill had passed, the state would have

Taxpayer’s Bill of Rights Could Have Prevented Texas Budget Crisis

Americans for Prosperity report shows $4.7 billion would have been returned to state’s taxpayers

by Sandra Fabry and Steve Stanek

IN THIS ISSUE

3 $5 Million Pension for Daschle?
5 Ind. Governor Proposes Tax Hike
8 Private Prisons Proposed for Ga.
12 Bush Appoints Tax Reform Panel
14 Job Losses Not Due to Outsourcing
18 Left, Right Oppose Farm Subsidies

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

©2005 THE HEARTLAND INSTITUTE
THE MONTHLY NEWSPAPER FOR TAX ISSUES
V3 N3 ~ MARCH 2005

PRESORTED
STANDARD
US POSTAGE PAID
BEAVER DAM, WI
PERMIT NO. 422
Want to Reach Every State and Federal Elected Official?

Act now to take advantage of this special introductory offer: Buy any size ad and get the following issue FREE!

Advertise in Budget & Tax News.

Every month Budget & Tax News is sent to all 8,300 of the nation's state and federal elected officials, plus 1,630 journalists and some 3,000 subscribers, Heartland Institute members and donors, and allies.

This is the perfect place for legislators to see your message!

For more information please call Nikki Saret at 312/377-4000, email nikki@heartland.org
$5 Million Pension for Daschle?

by Peter J. Sepp

Thirty-eight former senators and representatives from the 108th Congress qualify for taxpayer-funded pensions, with former Sen. Tom Daschle (D-SD) leading the pack at a projected lifetime payout of more than $5 million, according to a study released January 6 by the National Taxpayers Union Foundation (NTUF).

“Even as most Americans face high taxes and other roadblocks to their own retirement, members of Congress have paved a smooth path for their golden years,” said NTUF President John Berthoud. “Too bad taxpayers are supplying most of the gold.”

Huge Amounts Due

Among the findings of “Study: Congressional Retirees Reap Huge Taxpayer-Funded Pensions”:

- Daschle is eligible to start drawing a pension of $121,233 this year, the highest amount among those studied. Assuming Daschle lives to the actuarially projected age of 82.1 years and receives a 4 percent cost of living adjustment (COLA) annually, his total lifetime pension amount could reach $5,077 million.

- Also high on the list was former House member and presidential hopeful Dick Gephardt (D-MO), with a 2005 pension of $102,330 and a projected lifetime payout of $3,091 million.

- Three long-serving ex-lawmakers, Sen. John Breaux (D-LA), Sen. Ernest Hollings (D-SC), and Rep. Phil Crane (R-IN), each qualify for a $114,102 pension in 2005. Among these three, Breaux would be likely to receive the largest total payment over the course of his life: a projected $4,974 million.

- Even members of Congress with shorter tenures can look forward to significant pension packages. For example, former Rep. Jennifer Dunn (R-WA), with 12 years of service, could collect as much as $1.011 million over her life expectancy to provide the most accurate calculations of pensions possible.

- Although lawmakers elected in 1984 and thereafter tend to be covered by a pension plan that is less generous than the one offered to their senior colleagues, they can make up much of the difference through a taxpayer-funded “match” of salary contributions in a “Thrift Savings Plan” that functions much like a private-sector 401(k) arrangement. By taking maximum advantage of this plan and its investment options, a lawmaker elected in 1990 could retire this year with Thrift Savings Plan assets of more than $248,000.

Better than Private Sector

Members of Congress are covered under the two major retirement systems that include most federal employees, but lawmakers enjoy better pension formulas and eligibility rules than rank-and-file workers. (Participation is voluntary.) Congressional pensions are two to three times more generous than those offered to similarly paid executives in the private sector.

One reason is a yearly COLA that few businesses offer. Individual pension amounts for members of Congress are not a matter of public record. However, NTUF utilized data on lawmakers’ service, eligibility, and life expectancies to provide the most accurate calculations of pensions possible.

Peter J. Sepp (psepp@ntu.org) is vice president for communications with the National Taxpayers Union Foundation, the nonpartisan research arm of the 350,000-member National Taxpayers Union.
NYC Seeks to Tax, Fine Online Cigarette Buyers

Residents face $200-a-carton fines for not paying city tax on out-of-state smokers

by Steve Stanek

New York City residents who purchased cigarettes over the Internet are facing huge fines and garnishment of their wages for failing to pay city cigarette taxes.

The city’s tax collection action was announced January 14 by Mayor Michael Bloomberg (R) in his weekly radio address.

“The law says you’ve got to pay your taxes. The handful of people who don’t are just stealing, from the rest of us,” Bloomberg said in his address.

The city has sent letters to 2,300 residents, claiming they owe about $1.5 million in taxes. The letter says the city is giving them one month to pay the local cigarette tax or face a bill of $200 per carton.

The letters went to residents who purchased cigarettes from a now-defunct Internet retailer in Virginia. The city finance department obtained the names after a Virginia court ordered the retailer to divulge its customer list.

The finance department officials said they plan to send similar letters to thousands more Internet purchasers in the months ahead.

Serious Threats Made

New Yorkers are required by law to pay state and city taxes on most items they buy out of state, including tobacco products. State and city officials say they are losing millions of dollars by residents using the Internet to make purchases from out-of-state retailers and then neglecting to forward the appropriate tax.

“The finance commissioner is required by the city charter to enforce the law,” Bloomberg said. “It’s against the law to buy something out of state and bring it in and avoid sales tax.”

“Purchases of unstamped or unlawfully stamped cigarettes require the consumer to pay the New York City tax on those cigarettes,” reads the letter the city sent to the targeted consumers.

The letter also says, “Failure to pay the required cigarette tax could eventually lead the Finance Department to file a judgment against you in court, allowing the Department to take more severe collection actions, such as garnishing your wages and taking money from your bank account to pay the tax due.”

Taxes Highest in Nation

New York City has the highest cigarette taxes in the nation. The state tax on one pack of cigarettes is $1.50. The city tax adds another $1.50. The federal tax is 39 cents a pack, for a total tax of $3.39 per pack.

Hoffer said he could not find a New York City store that sold Broncos, which he first tried and liked during a trip out of state. After having no luck finding a New York City retailer who sold Broncos, he searched on the Internet and found the Virginia retailer.

“I didn’t think I was breaking any laws,” Hoffer told McKay. “Then out of the blue I get this letter from the city, threatening to garnish my wages and damage my credit if I didn’t pay.”

Joel Sherman, president and CEO of Nat Sherman, a 75-year-old maker of luxury cigarettes based in New York City, said the city’s high cigarette tax “has created an enormous black market in cigarettes. Truckloads come in from outside the state. Much like in Prohibition days, they’ve created an underground network. They’re killing honest people along with the dishonest,” Sherman said.

“We’ve always handled mail order, but we are restricted from selling in a number of states. I can’t send anything in New York State, to my own customers. That forces them to one of the Internet providers.”

Steve Stanek (stanek@heartland.org) is managing editor of Budget and Tax News

Doing Business in New York is a Costly Matter

“New York City has the highest cigarette taxes in the nation. The state tax on one pack of cigarettes is $1.50. The city tax adds another $1.50. The federal tax is 39 cents a pack, for a total tax of $3.39 per pack.”

by Robert Ward

The advantages of doing business in New York, such as access to technology and a strong labor force, do not offset the disadvantages of high costs of employee benefits, energy, taxes, and other expenses, according to a new “Just The Facts” data compilation by The Public Policy Institute.

The institute, which is the research affiliate of The Business Council of New York State, published the online installment of “Just The Facts: Key Economic and Social Indicators for New York State,” on December 28.

The report includes 31 tables comparing the cost of major business expenses, along with other indicators, in New York and the other 49 states.

One business climate comparison included in the new installment shows the burden of these high costs clearly outweighs New York’s advantages in determining the state’s overall competitiveness.

Energy, Labor Costs High

The overall average cost of electricity in New York, for example, is second highest in the country, after Hawaii’s. Commercial users of electricity in the Empire State pay an average of 43 percent more than businesses elsewhere in the country, and industrial prices in the state are 19 percent higher than average.

Natural gas, another important source of energy for businesses, is also expensive in New York. Average industrial prices for natural gas are 37 percent above the national average, “Just The Facts” shows.

Average employer costs for work-based health insurance in New York are second highest in the country, at $6,671 per year, according to “Just The Facts.” The total average premium, including employees’ costs, is third highest in the nation.

Unemployment Insurance High

New York’s unemployment insurance tax structure is the worst in the nation, according to a Tax Foundation index included in “Just The Facts.” The rating reflects the nation’s highest minimum unemployment insurance tax rate for employers that have not laid off any workers, relatively high maximum tax rates, and a complex experience-rating system.

Overall business costs in New York, including those for labor, energy, and taxes, are ninth highest in the country, “Just The Facts” shows. While labor costs on average are slightly lower in New York than most other

Continued on next page
Indiana Governor Proposes Tax Hike on $100,000+ Earners

by Steve Stanek

Barly one week into his first term as Indiana’s governor, Mitch Daniels—the state’s first Republican governor in 16 years and former budget director for President George W. Bush—proposed a temporary income tax increase for persons who earn more than $100,000.

The proposal came in response to what Daniels referred to as a “structural” budget deficit of about $645 million. Daniels said his plan would balance the state’s budget in one year.

In his January 18 State of the Address, Daniels proposed raising the state’s income tax rate on $100,000 and up earners from 3.4 to 4.4 percent for one year, a 29 percent jump in their tax burden. The tax also would apply to persons who run sub-chapter S corporations, in which business profits are counted as income.

Opposes General Tax Hike

Daniels estimated the tax hike would apply to 140,000 taxpayers and bring in about $290 million of additional income tax revenue. He pledged to “veto any attempt to raise general taxes on our citizens, and any attempt to extend for even one day the one temporary measure I reluctantly propose tonight.”

He also proposed holding spending current levels in many programs, including schools and prisons, slower growth in Medicaid spending, and a 120-day moratorium on school bond issues. Daniels said the state plans to draft tougher rules for approving construction bonds during that time.

Total spending, though, would increase by about $1 billion over the next two years.

Briane House, who earns more than $100,000 a year as legal counsel to an energy firm, supported Daniels’ call for a temporary income tax hike to fix the budget.

“I don’t go to Starbucks four times a week and you’re there,” House told FoxNews Online in a January 27 article. “You’re not going to miss it.”

Many Legislators Unimpressed

Legislators from both sides of the aisle appeared to give the proposals a cool response. “I’m upset,” said State Sen. Dennis Kruse (R-Auburn). “I agreed with most of what he said, but then he mentioned he wanted a tax increase on people who earn over $100,000. I oppose that. I don’t want any tax increases. We have too many taxes already. The answer is to cut government spending more.”

Opposes General Tax Hike

Kruse said the governor should go farther with Medicaid spending cuts. “If we have no growth in Medicaid, we could balance the budget on that,” Kruse said. “It’s the second-largest expenditure in the state next to education. If we keep it from growing, the budget is balanced.”

Prospects Called Dim

Because of these and other recent tax increases, and spending increases including $2 billion more for education over the past eight years, Kruse said he believes prospects for the governor’s budget proposals “are dim.”

“The biggest problem besides the tax proposal is increasing spending by $1 billion at the same time he’s flattining schools,” Fry said. “He’s projecting increases in Medicaid, and general government spending is going up. He’ll get no support from Democrats if he flattines education.”
Illinois Contractors Fight Union-Friendly Order

Critics charge governor's order adds millions to the costs of state construction projects

by Don Glays

A recent executive order issued in 2003 by Illinois Gov. Rod R. Blagojevich (D) blocks most construction contractors from bidding on state construction projects, reducing competition and driving up costs, according to contractors who are mounting a campaign against the governor's order.

The order requires Personal Labor Agreements (PLAs) on all eligible state public works construction projects.

"PLAs cost the state and taxpayers of Illinois hundreds of millions of dollars every year because they eliminate competition in bidding for state-managed construction projects," said Mike Uremovich, president of STARCON International, Inc., which employs more than 1,000 workers as the largest merit or non-union mechanical contractor in Illinois.

Non-Union Shops Banned
PLAs are pre-hire agreements pertaining to a specific construction project, negotiated between a public or private construction owner, such as an Illinois municipality or state agency, and a labor union or group of labor unions. PLAs establish rules to be followed by construction companies that choose to bid on construction projects.

The terms of a PLA recognize the participating unions as the sole bargaining representatives for the workers covered by the agreement on a specific project, regardless of the workers' current union membership status.

The Northern Illinois Chapter of Associated Builders and Contractors, a merit shop construction trade association, has begun holding meetings with and sending letters to state legislators to explain the impact of the governor's order, in hopes they will pressure the governor to lift it.

The association points out most construction workers and contractors in Illinois are non-union, which means the companies that hire the majority of Illinois workers are excluded from bidding on PLA projects.

PLAs Raise Costs
Although there are case studies and substantial anecdotal evidence indicating PLAs raise construction costs, until recently there had been little formal statistical evidence of such an effect.

To compare PLA and non-PLA costs it would be necessary to compare construction projects of a similar nature, have access to financial records, and have a large enough sample size to determine true correlation and causation.

A 2003 study by the Beacon Hill Institute (BHI) at Suffolk University in Boston found a "natural experiment" where ideal conditions for measuring the cost of PLAs were present: public school construction. BHI studied Massachusetts school construction projects and found bid prices on PLA projects were 1.4 percent higher than bid prices on non-PLA projects.

The actual cost of construction was 12 percent higher on PLA projects.

A year later BHI conducted a study of PLAs' impact on school construction in Connecticut and uncovered results similar to those of the Boston school study. The Connecticut study found PLAs raise the cost of building schools by almost 18 percent.

"If you extrapolate those studies' findings onto Illinois school construction, the state of Illinois is wasting millions of dollars by not having free and open competition on school construction," said Uremovich.

"Applying the BHI study results to Illinois, the state would conceivably save $200 to $240 million, and local school districts would save a like amount, for a combined state and local savings of $400 to $480 million."

$400 Million Wasted
The Illinois 2004/2005 fiscal year budget for school construction is $2 billion at the local school district level. Applying the BHI study results to Illinois, the state would conceivably save $200 to $240 million, and local school districts would save a like amount, for a combined state and local savings of $400 to $480 million.

"That's a lot of money that could be going to textbooks, social programs, or back into textbook stores, said Randy Truckenbrodt, president of Randy Truckenbrod, Inc., which employs more than 1,000 non-union Illinois workers, said he offers his employees a full benefits package including medical insurance and matching 401(k), yet he would still have to pay into a union benefit plan for all of his workers on PLA projects.

"If union workers on PLA projects may not be able to recoup portions of the money that my company or they have personally put toward benefit plans unless they remain in the union after completion of the project," said Truckenbrodt.

"If the unions truly cared about the workers, they would let those benefit accounts be portable."

Because Illinois is a prevailing-wage state, companies are required by law to pay workers a legally mandated wage. "So it is not like the union's arguments for PLAs are about fair wages, either," said Truckenbrodt.

Historically, unions market PLAs to construction owners as a means to maintain labor peace by prohibiting strikes, slowdowns, and lockouts. But Uremovich noted signing a PLA is no guarantee of labor peace because union workers do strike and picket.

"Unfortunately, only Governor Blagojevich has the power to repeal his PLA executive order and restore fiscal order and fairness to the state of Illinois," said Truckenbrodt.

Don Glays (info@abcni.org) is president of the Northern Illinois Chapter of Associated Builders and Contractors, a merit shop construction trade association in Elk Grove Village, Illinois.
Coalition Forms to Promote Federal Protection of State Tax Incentives

by Kevin Thompson

More than 60 businesses, business groups, and state and local officials have formed a coalition to back federal legislation to protect the right of states to offer targeted tax incentives for economic development.

The Cuno Coalition, created by the Council on State Taxation (COST), takes its name from last September’s decision of the 6th U.S. Circuit Court of Appeals in the Cuno v. Daimler-Chrysler case. That decision struck down part of a $281 million package of state and local tax incentives Daimler-Chrysler received in 1998 for the construction of a Jeep manufacturing plant in Toledo, Ohio.

“In response to the 6th U.S. Circuit’s opinion, federal legislation was introduced late in the 108th Congress seeking to ensure that state legislatures retain the authority to offer economic development incentives.”

Under the “Dormant Commerce Clause Doctrine,” the federal court declared the state’s Investment Tax Credit program violated the U.S. Constitution by penalizing companies that might want to develop business opportunities outside Ohio.

The Dormant Commerce Clause Doctrine is a legal concept the U.S. Supreme Court has inferred from the actual Commerce Clause of the Constitution since the 1940s. As the online Wikipedia encyclopedia puts it, “even when Congress has not acted (i.e. Congress’s power to regulate commerce lies dormant) the Supreme Court has found certain states, and local laws unconstitutional if they unduly burden interstate commerce.”

States’ Authority Undermined

The Cuno Coalition has held meetings to consider legislative alternatives, drafted language for those alternatives, and distributed draft legislation to coalition members for review, comment, and dissemination to interested parties. The coalition also has contacted federal, state, and local officials to discuss tax incentive programs.

The value of state tax incentives has always been a matter of vigorous debate. Some economists argue state tax incentives encourage job creation and investment that otherwise would not occur, but others dismiss them as a form of corporate welfare.

Historically, the debate has taken place among elected legislators in state capitols. Although the 6th Circuit Court’s decision affects only Kentucky, Michigan, Ohio, and Tennessee, it paves the way for other federal courts to dictate state tax policy and thus remove these decisions from the hands of elected state lawmakers.

A petition for review by the U.S. Supreme Court is expected to be filed by at least one of the parties—the State of Ohio, the City of Toledo, or Daimler-Chrysler Corp. A formal petition has not yet been filed.

Pro-State Bill Likely

In response to the 6th U.S. Circuit’s opinion, federal legislation was introduced late in the 108th Congress seeking to ensure that state legislatures retain the authority to offer economic development incentives.

“From a federal perspective, the question is not whether economic development incentives work. Rather, the question is whether state legislatures or federal courts should decide state tax policy,” said Doug Lindholm, president and executive director of COST. “Legislation addressing this issue will be introduced and debated during the 109th Congress.”

The investment tax credit (ITC) is the most common type of state tax incentive. It is given to businesses that meet certain investment thresholds.

In the case of the Ohio ITC, investment in in-state property, the hiring of in-state employees, and the expansion of facilities in the state were different ways a business could qualify. The Ohio regime is similar to programs in many other states.

Opposition’s Theory Untested

Constitutional scholars have questioned whether these incentives are allowable under the U.S. Supreme Court’s Dormant Commerce Clause jurisprudence.

The legal theory is that if a tax incentive favors in-state investment (which all tax incentives do), and the statute implicates use of the “coercive power” of the state (in this case, the state’s power to tax), then the incentive discriminates against interstate commerce and is thus unconstitutional.

That theory had never been tested in court. In the late 1990s, however, a chain of events began that led to the 6th Circuit Court’s adoption of this legal theory.

In 1996, Professor Peter Enrich of Northeastern University School of Law published a law review article in which he outlined his theory that state tax incentives violate the Commerce Clause by distorting economic decision-making concerning the location of business activity. After reading the article, consumer activist Ralph Nader, an outspoken critic of tax incentives, called Enrich and asked him to bring a test case through the courts.

Enrich agreed, and they targeted an incentive package being used by Connecticut in the late 1990s to lure the New England Patriots football franchise from Foxboro, Massachusetts to Hartford, Connecticut.

The case fell apart when the Patriots agreed to stay in Foxboro. Soon thereafter, Enrich and Nader set their sights on the investment tax credit program for DaimlerChrysler’s Toledo Jeep plant.

Congress Retains Final Say

The U.S. 6th Circuit Court’s opinion is subject to Congress’ Commerce Clause authority. The Constitution’s affirmative grant of power to Congress to regulate commerce among the states means Congress can override court decisions based on the Commerce Clause.

As a matter of settled Constitutional doctrine, Congress may sanction state legislation that a court has declared unconstitutional under the Commerce Clause; likewise it may prohibit state action that a court has decided Constitutional under the Commerce Clause. Hence, in response to the 6th Circuit Court decision, Ohio Senators George Voinovich (R) and Mike DeWine (R) introduced S 2881 in the 108th Congress, and Rep. Ben Chandler (D-KY) introduced a similar measure, HR 5427.

Both measures seek to exercise Congress’ affirmative power under the Commerce Clause to give explicit consent to certain types of tax incentives, to ensure state legislatures retain the power to structure their tax systems as they see fit.

Similar legislation will be introduced during the 109th Congress, which convened in January 2005.

The Ohio decision, while significant, is part of a larger debate. Legal challenges to tax incentives in Nebraska and Oklahoma have been amended to include the 6th Circuit’s theory, and groups opposing tax incentives in other states, such as North Carolina, are currently amassing resources to mount similar challenges.

Kevin Thompson (kthompson@state-tax.org) is legislative counsel for the Council on State Taxation, a nonprofit trade association based in Washington, DC.

MORE INFO

For more information on the Cuno decision, see “Federal Appeals Court Strikes Down Targeted Tax Incentive in Ohio,” in the November 2004 issue of Budget & Tax News.

Make your next event extraordinary!

Wendell Cox, a senior fellow of The Heartland Institute, is one of the country’s most popular and often-quoted experts on urban “sprawl,” smart-growth, and transportation issues.

Engagements are scheduled on a “first come, first served” basis. Call 312/377-4000 today to schedule Wendell Cox to keynote your next event!

“Cox is a brilliant analyst and his presentation was highly entertaining. He conveyed a lot of material with impressive clarity!”

KENNETH GREEN REASON PUBLIC POLICY INSTITUTE
Private Prisons Could Cut Georgia’s Spending, Studies Suggest

by Geoffrey F. Segal and Kelly McCutchen

With the state of Georgia facing a budget shortfall, legislators are looking for new areas of saving to help balance the budget. Although Medicaid and education have received most of the attention recently, numerous studies, including two new ones, show one idea with which Georgia has prior experience remains as viable today as it did when the state first implemented it in 1997: private prisons.

Research shows the private prisons themselves save money and also put external pressure on the public prison system, further constraining the escalation of costs.

“Georgia currently has three private prisons housing 4,550 inmates. Of a total prison population of more than 54,000, roughly 8 percent of inmates are in private prisons.”

Whole System Studied

About three-fifths of the states have private prisons. A host of studies show significant cost savings, in the range of 10 to 15 percent, when the corrections function is privatized.

Two especially interesting studies take a slightly different approach to the analysis of prison privatization and cost savings. These studies sought to identify the effects of competition and privatization on the prison system as a whole, as opposed to just one institution.

James Blumstein and Mark Cohen, both professors at Vanderbilt University, analyzed whether the use of private prisons by state correctional departments had any impact on the rate of growth in states’ public corrections system operating budgets. Anecdotal evidence of this phenomenon already existed from time-series data in Arizona and Texas, but a systematic analysis had never been done.

Using data for 1999-2001, the study found states utilizing private prisons had considerably more success in keeping public corrections spending under control than did states with no private prisons.

During the study period, states with private prisons saw the growth in daily costs of housing prisoners in the public corrections system reduced by 8.9 percent, or about 4.45 percent each year.

Competition Generates Big Savings

One of the most significant findings was that turning over even a small portion of prison populations resulted in big savings. States with less than 5 percent of their prison population in private facilities experienced a 12.5 percent increase in expenditures, versus an 18.9 percent increase in states with no private prisons.

States with larger percentages under private management had even greater savings, with growth in expenditures at only 5.9 percent during the study period.

Another study, by the Rio Grande Foundation in New Mexico, compared state per-prisoner budgets across 46 states. The analysts measured an entire department’s spending rather than just a particular prison’s spending, thus identifying the cost savings public prisons achieve in response to private competition.

The results were in line with those of Blumstein and Cohen.

Further Privatization Promising

Public safety is the third-largest area of expenditure in Georgia’s state budget, after education and human services. Most of the $1.2 billion spent annually on public safety is spent on prisons.

Georgia currently has three private prisons housing 4,550 inmates. Of a total prison population of more than 54,000, roughly 8 percent of inmates are in private prisons.

The two studies suggest this limited foray into privatization already saves Georgia money and constrains total prison costs better than states that have not privatized correctional facilities. The studies suggest further privatization would save Georgia taxpayers even more money.

Prison Alternatives Also Available

The private sector also could assist in Georgia’s effort to find less-costly alternatives for offenders who pose little risk to the public. Additional parole revocation centers, for example, can divert parolees who commit technical violations of parole away from expensive state prison beds and into short-term, treatment-oriented work camps.

Similarly, transitional centers could be used as a back-end alternative for certain inmates, particularly those convicted of non-paroleable crimes with no supervision to follow their release, who will have to be transitioned back into the community.

Studies show privatization is most efficient when contracts specify clear, measurable goals to reduce costs, raising taxes, or jeopardizing public safety.

Geoffrey Segal (gppf@gppf.org) is director of privatization and government reform policy at Reason Foundation and an adjunct scholar with the Georgia Public Policy Foundation. Kelly McCutchen (gppf@gppf.org) is executive vice president of the Georgia Public Policy Foundation.

Competition Improves Government Performance, New Studies Show

by Adrian Moore

Two important new studies show competition improves the efficiency of government departments. One study considered the effects of competition on federal employees, while the other investigated how limited introduction of competition affected the performance of all schools in Philadelphia.

In addition, Harvard University recently published a report by an FCC attorney on how government policy has helped and hindered communications competition and innovation.

Study Addresses Employees, Savings

“Competitive Sourcing: What Happens to Federal Employees?” from the IBM Center for the Business of Government, answers these questions: How does introduction of competition affect government employees? Does competition really save money?

The study’s authors, Jacques Gansler and William Lucyshyn, professors of public policy at the University of Maryland, examined data on competitive bidding of projects affecting more than 65,000 defense employees since 1995. They discovered “only 5 percent [of defense positions] were reduced through the involuntary separation of federal employees. Instead, positions were more likely to be reduced in the winning bids through the transfer of employees to other government jobs or through early retirement.”

They also found competition reduced costs by an average of 44 percent, “with either improved performance or no decrease.” Most savings came from improved efficiency, they note, with the rate of government productivity—one of the measures of performance—sometimes government employees, sometimes private firms—using 39 percent fewer employees to do the work.

Competition Benefits Schools

The November 1, 2004 issue of the U.S. Department of Education’s Education Innovation newsletter highlighted “Private Nonprofit Providers in Philadelphia,” an article by Reason Foundation’s Lisa Snell, which examines how privatization of the management of some of Philadelphia’s most troubled schools has affected the city’s other public schools.

Writing in the October 2004 issue of School Reform News, sister publication to Budget & Tax News, Snell explained...
how competition from privatizing some of Philadelphia’s schools has driven all of them to improve performance. Since privatization, all Philadelphia schools have improved their test scores twice as rapidly as schools in the rest of the state. Of Philadelphia’s 265 schools, 64 of the lowest-performing were targeted for special intervention when the state took over the school system in 2002. Of those, 45 were turned over to private education managers to run.

In the past two years, gains in student achievement occurred in contract- ed “partner” schools as well as in traditional public schools, providing the first substantial evidence that the city’s public–private school management experiment is working.

Competition Outperforms Regulation

“Does Government Help or Hurt the Spread of New Communications Technology?” a Harvard University report by John Berresford of the Federal Communications Commission, examines four case histories: the achievement of universal telephone service, creation of radio broadcasting, creation of television broadcasting, and taming of the Bell System. From these histories, the author draws six lessons about which actions by government produced, and which did not produce, good results for American consumers.

Among Berresford’s conclusions:

- The new technologies of the past 50 years, not regulation, have given more power to the people and more voice to the silent. Government should welcome disruptive, unpredictable, even chaotic new technologies.
- Government, when confronted with a monopoly (or oligopoly), should avoid regulating it in hopes of making it a “good monopoly.” Government’s scarce resources are best devoted to stimulating competition and abundance, not to regulating a “good monopoly” and the scarcity that usually creates.

Adrian Moore (adrian.moore@reason.org) is vice president of the Reason Foundation.

INTERNET INFO


“Privatization Produces Gains in Philadelphia” is available at http://www.heartland.org/Article.cfm?articleID=15694.

“Does Government Help or Hurt the Spread of New Communications Technology?” is available online at http://pirp.harvard.edu/pubs_pdf/berres%5Cberres-p04-2.pdf.

Verizon Exec Delivers Tough Message to Mayors on Telecom Taxes

by Howard Buskirk

Verizon Executive Vice President Tom Tauke on January 18 urged the U.S. Conference of Mayors, meeting in Washington, DC, to work with telecom companies to lower taxes the industry faces, with an eye toward boosting the economy. Tauke said the current tax environment is inequitable and can’t survive the transition to a Voice over Internet Protocol (VoIP) world.

The president of the group, Akron Mayor Donald Plusquellic, said some of the mayors may have been “offended” by Tauke’s strong comments.

The controversy comes as work begins by a conference task force that will look at telecom issues, including taxing authority, management of right of way, social obligations, and compensation for service. The group plans to complete a report before the conference’s annual meeting in June.

System “Outmoded, Cumbersome”

“I must tell you, one of the real roadblocks to the path to the broadband future is an outmoded, cumbersome, and ultimately unworkable system of state and local taxation that’s at odds with today’s technological and competitive realities,” Tauke told a standing-room-only session.

“So the first problem we face is that the taxes in today’s world are just too high. ... The second problem is that, even within what you would broadly call the ‘communications industry,’ the same service is taxed differently, depending on who provides the service.”

Tauke said as Verizon starts to offer video it will likely see the same problem it does in more traditional phone service. Tauke questioned whether local phone taxes can survive as the industry converts to VoIP.

“If I can buy my VoIP phone in Iowa, get an area code, take my phone to New York, and call my business partner in Texas, how do you impose a ‘local tax anything?’” he asked. “The tax system is breaking. ... It won’t work, and as we move to the IP world we need a change.”

Tauke noted many telecom taxes stem from the monopoly era, and that local governments naturally want them to continue as a reliable revenue source. “It’s hard to touch a system that yields $20 billion in taxes to state and local governments,” he acknowledged.

Taxes Discourage Investment

But, Tauke argued, without significant change, much of the revenue will disappear anyway. “It puts $20 billion at risk over the long run, because it discourages investment in the very technologies that will stimulate job growth, attract high-tech businesses, and stimulate the creation of new economic activity,” he said.

“Finally, in a few years, the move to IP will make it virtually impossible for many of you to collect significant portions of the tax,” he noted.

Mayors Take Offense

Tauke’s comments were controversial, the group’s current president said. “Many mayors may have been offended by some of his comments today because of what he very pointedly said about high taxes,” Plusquellic said during a press conference. “[Tauke] mentioned other phrases that might appear to be controversial.”

Plusquellic said mayors “understand the real competition that’s out there” and “we want our companies to be successful.”

Plusquellic said he wasn’t offended by the comments. He said mayors want to solicit all points of view as they write their report.

“I happen to believe that we have good corporate citizens in our country and that they will work together,” he said. “I have some confidence that we’ll be able to work with the governors, the county association ... to craft something that will deal with that common ground” with industry.

“[Telecom tax policy] puts $20 billion at risk over the long run, because it discourages investment in the very technologies that will stimulate job growth, attract high-tech businesses, and stimulate the creation of new economic activity.”

Further Issues Raised

Responding to Tauke during the session, Plusquellic joked he had an answer to the dilemma posed about how to tax a call made on a VoIP phone in one state using an area code from another.

“How’s a simple answer,” he said in comments that produced applause. “You just let them tax everywhere. How hard is that?”

Dearborn Mayor Michael Guido, chairman of the task force, raised another issue, emphasizing the significance to the mayors of “the battle” with industry over rights of way. “It’s about your ability to be compensated for the use of public right of way,” Guido said. “Industry is defining this as a tax, and it’s not a tax.”

Howard Buskirk (info@warren-news.com) is senior editor at Communications Daily, a publication of Warren Communications News. This article originally appeared in the January 19, 2005 issue of Communications Daily. Reprinted with permission from Warren Communications News, Inc., 2115 Ward Court NW, Washington, DC 20037.
The U.S. corporate income tax desperately needs to be cut and simplified to adjust to the realities of the increasingly competitive global economy. (income tax liability divided by adjusted gross income) for those earning more than $200,000 was 26 percent in 2002. The average tax rate of households earning between $50,000 and $100,000 was 11 percent.

Thus, the income tax is very vertically unequal. To increase fairness and equality, and to spur economic growth, the top statutory tax rates should be substantially reduced.

Tax Complexity Has Increased
Tax complexity has increased substantially during the past decade. Figure 2 shows the total number of pages in the tax code, regulations, and related Internal Revenue Service (IRS) rules increased almost 50 percent between 1995 and 2004. Table 1 provides a variety of other indicators showing tax complexity has increased under the Republican Congress. Tax forms and IRS instruction books are longer, there are more tax forms, Americans are spending more money for tax preparation services, and the federal and average state corporate tax rate is 40 percent, 10 percentage points higher than the average among our 30 major trading partners.

America’s high corporate tax rate creates many problems for the economy. It causes U.S. companies to lose out in global markets to foreign businesses that face lower tax burdens. It also causes the American economy to lose investment dollars to countries with more inviting tax climates.

The high corporate tax rate also has encouraged companies such as Enron to structure elaborate transactions to avoid corporate taxes. Other U.S. firms have reincorporated abroad in low-tax countries to avoid uncompetitive U.S. tax rules on foreign investment.

To reduce such tax avoidance, U.S. policymakers have proposed and enacted several pieces of anti-shelter legislation in recent years, but those minor fixes just make the tax code more complex and more uncompetitive.

A more fundamental response to global tax competition is needed. The U.S. corporate tax rate should be cut sharply, and policymakers should consider replacing the corporate income tax with a consumption-based cashflow tax. [Editor’s note: A cashflow tax is a form of expenditure or consumption tax. It allows tax deductibility for all business expenditures at time of payment and makes dividend and interest payments non-taxable in the hands of the recipient. Allowing immediate deductibility means businesses are taxed on their cashflow, hence the term cashflow tax.]

Individual Rates Too High
Today’s top individual income tax rate of 35 percent number of narrow tax breaks, or loopholes, has increased.

Despite occasional calls for simplification by members of Congress from both parties, when it comes to writing tax legislation, members usually support provisions that increase complexity.

Addicted to Narrow Provisions
Members of Congress seem addicted to narrow tax credits, special deductions, and complex income limitations. For example, the Taxpayer Relief Act of 1997 contained 11 narrow education tax breaks for such items as student loan interest, a tuition tax credit, and an education IRA. Each item has complex requirements related to income, eligibility, and administration.

In 2001 the congressional Joint Committee on Taxation issued a 1,300-page report, requested by Congress, on simplifying the tax system. Despite
A competing reform idea is replacement of the income tax with a national retail sales tax. Sen. Richard Lugar (R-IN) introduced his retail sales tax plan in April 1995. He was followed by Ways and Means Chair Bill Archer, who said he wanted to “rip the income tax out by its roots” and replace it with a sales tax.

Another reform idea is the pro-savings “USA Tax” proposal, currently championed by Rep. Phil English (R-PA). Many articles and books during the 1990s examined the economic growth and simplification advantages of consumption-based taxation, including early studies by the Cato Institute.

Opposition Too Powerful
Despite all the support for fundamental tax reform inside and outside the Beltway, it has not happened yet. Why not? There are several reasons:

- Splits among tax reformers. Nearly all the major tax reform plans of recent years, including the flat tax, retail sales tax, and USA Tax proposal, have been economically similar in that they all rely on a savings-exempt or consumption-based structure. However, key design features, such as the point of collection and treatment of imports and exports, have been sufficiently different to prevent agreement on a common plan.
- Big business has not come on board. Corporations spend millions of dollars lobbying to gain narrow tax breaks and defend against narrow tax increases. Most companies put little effort into supporting fundamental tax reform. Also, the last major tax “reform” bill—the Tax Reform Act of 1986—imposed a substantial tax increase on corporations. Businesses are justifiably concerned that “reform” means an increase for them.

Nonetheless, corporations should consider that the past decade of lobbying for narrow provisions has earned them little. The corporate tax is more punitive than ever. The corporate tax legislation passed in 2004 contains only limited reforms and does not solve major problems.

- Social engineering undercuts reform. A good deal of the GOP’s tax policy focus during the past decade has been to reduce the constituency for tax reform by taking millions of moderate-income Americans off the tax rolls. Expansion of the earned income tax credit in 1990 and 1993, the child tax credit, the new 10 percent tax bracket, and other provisions have had the effect of zeroing out income tax liability for millions of families.

By 2003, 60 million of the 150 million U.S. households (39 percent) did not pay a dime of federal income tax. That has created a large group with a strong interest against any tax reform that asks them to pay even a simple, low-rate tax.

- Democrats’ opposition to reform. In the 1980s, tax reform was a bipartisan concern, with prominent Democrats and liberal think tanks offering reform proposals. Democrats introduced versions of the Hall-Rabushka flat-tax plan in Congress in early 1982, and in 1985 the Brookings Institution’s Henry Aaron and Harvey Galper proposed a comprehensive consumption-based tax plan.

But since becoming the minority party in the 1990s, the Democrats have focused their energy on throwing darts at Republican reform plans, while offering no reform alternatives of their own. For tax reform to move ahead, it may be necessary for some forward-thinking Democrats to get on board the tax reform movement.

Reform Returning to Agenda
Despite these hurdles, one can bet serious tax reform will come back onto the agenda in Washington. The past decade of tax debates has shown tax cuts and major tax reform ideas are popular with the general public. Tax cutting continues to be important to the electoral success of the Republican Congress.

Dynamics in the tax system will also raise the profile of reform. Tax complexity continues to spiral upward, and the AMT will soon be hitting 30 million American households. Those dynamics may spur a tax revolt and demands for a major tax system overhaul.

Also, the federal corporate income tax is headed for a train wreck as other countries continue to cut their statutory rates and investment capital becomes ever more globally mobile.

The tax reform ingredient that is missing right now is a new generation of Republican leaders to build on the efforts of Bill Archer, Dick Armey, and other would-be reformers of the 1990s.

Chris Edwards (cedwards@cato.org) is director of tax policy at the Cato Institute, Washington, DC.
Majority Favors Private Accounts for Social Security, Cato/Zogby Poll Says

by Michael Tanner

A majority of Americans believe younger workers should be allowed to invest a portion of their Social Security taxes in individual accounts, according to a new poll conducted by Zogby International for the Cato Institute.

Despite a drumbeat of criticism for weeks by congressional Democrats and a concerted public relations campaign by powerful interest groups such as the AARP against Social Security choice, 51 percent of those polled by Zogby supported the introduction of individual accounts. Only 39 percent opposed individual accounts being part of any Social Security reform.

Age Groups Split Predictably

Not surprisingly, the results showed a split along age lines. Younger voters were strongly in favor of individual accounts, which garnered the support of 61 percent of respondents under age 30 and 58 percent of those under 50. Most respondents over age 55—55 percent—were opposed. Most Democrats (more than 30 percent) said the New Deal-era system was facing “serious problems” that required “major changes.” Few voters (5 percent) accepted the notion that Social Security is fine or could be fixed with only “minor, incremental changes” (19 percent).

Current System Considered Risky

When asked whether they believed private investing or the current Social Security system is riskier, voters split nearly evenly. Roughly 41 percent thought private investment is riskier because benefits promised. Again, voters split by age, with young people believing Social Security is riskier (52 to 39 percent) and seniors believing private investment is riskier (46 to 31 percent).

Voters were also supportive of another proposal rumored to be part of a Bush Social Security plan. By a 61 to 23 percent margin, voters backed a proposal to hold future benefit growth to the rate of inflation.

The poll of 1,004 likely voters was conducted in mid-January and has a margin of error of plus or minus 3.2 percent.

Michael Tanner (manner@cato.org) is director of the Project on Social Security Choice at the Cato Institute.

White House Appoints Tax Reform Panel

by Steve Stanek

President George W. Bush on January 7 followed through on a campaign promise to name a commission to study tax reform by announcing the formation of the President’s Advisory Panel on Federal Tax Reform.

The nine-member panel will be directed by former U.S. Senators Connie Mack III (R-FL) and John Breaux (D-LA), who will serve as chairman and vice chairman, respectively.

Mack is now senior advisor at Shaw Pittman LLP, a Washington, DC law firm. During his Senate tenure Mack served as chairman of the Joint Economic Committee and was a member of the Finance and Banking committees.

Breaux served on the Senate Finance Committee and sub-committee on Taxation and IRS Oversight.

The panel has been directed to make recommendations to Treasury Secretary John Snow by July 31, 2005. The president has asked members to suggest a simpler and fairer tax system that encourages economic growth. Snow will use the report in shaping his own proposals for Bush.

In a prepared statement, Snow said the bipartisan panel “brings together some of our nation’s brightest minds.”

Other panelists named to the commission are:

■ William Eldridge Frenzel, former member of the U.S. House of Representatives.

Frenzel served on the Budget Committee and the Ways and Means Committee. He is a guest scholar at The Brookings Institution.

■ Elizabeth Garrett, professor of law, University of Southern California. Garrett served as legislative director and tax and budget counselor to former U.S. Senator David L. Boren.

■ Edward P. Lazear, senior fellow, Hoover Institution, and professor of human resources, management, and economics in Stanford University’s Graduate School of Business. Lazear is the founding editor of the Journal of Labor Economics.


■ James Michael Poterba, Department of Economics, Massachusetts Institute of Technology. Poterba serves as associate department head. He has taught at MIT since 1982.


Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Reaction Decidedly Mixed

Some business and investor groups immediately came out in favor of the president’s proposal. Other organizations, such as the AARP (American Association of Retired Persons), slammed it. Democrat leaders in Congress have voiced their opposition, and some Republican lawmakers have expressed serious reservations.

More than 40 business organizations and companies—including the National Federation of Independent Business, National Restaurant Association, Hewlett-Packard Co., and stock brokerage firm Edward Jones & Co.—announced the formation of an alliance to support Bush’s efforts.

One enthusiastic supporter among federal lawmakers was Rep. David Dreier (R-CA), chairman of the House Committee on Rules. Dreier praised Bush’s address, saying on John McLaughlin’s One on One television program, “The president has provided hope for younger workers they haven’t had before.”

Surveys have shown young workers are more likely to believe in visitors from other planets than in Social Security being available for them at retirement.

The Bush plan would allow workers to pass on money in their private accounts to their children or grandchildren, which Dreier told McLaughlin should be “very appealing” to younger workers.

He also said Republicans in Congress are “enthused” about addressing Social Security reform. Comments by other Republican lawmakers, however, reflect more trepidation than enthusiasm.

“I’ve talked to some of my colleagues and they’re panic-stricken,” said Rep. Mark Foley (R-FL) in an interview with Associated Press reporter Laura Meckler.

“Many of us believe that privatization ... is a code word to destroy Social Security, not preserve it.”

SENIOR CHUCK SCHUMER
D-NEW YORK

“Probably Not Doble”

Sen. Pete Domenici (R-NM) cited opposition from Democrats in telling Meckler, “Politically speaking, right now it’s probably not doable.”

During a news conference the day after the address, Sen. Chuck Schumer (D-NY) said, “Many of us believe that privatization ... is a code word to destroy Social Security, not preserve it.”

Schumer said 44 Democrat senators had sent Bush a letter stating their opposition. If those senators hold their ground, they could stop any reform, because the remaining 56 votes would be short of the 60 needed to avoid a filibuster and move a bill through the Senate.

Democrats made their opposition clear even before Bush finished his speech. When Bush said Social Security would be bankrupt by 2042,Democrats in the gallery could be heard shouting “No! No! No!”

In a televised response immediately after the president’s address, Senate Minority Leader Harry Reid (D-NV) said Democrats “strongly disagree with the president’s plan to privatize Social Security,” calling it “dangerous.”

“Democrats are all for giving Americans more of a say and more choices when it comes to their retirement savings,” Reid said. “But that doesn’t mean taking Social Security’s guaran-
tee and gambling with it. And that’s coming from a senator who represents Las Vegas.”

Unfunded Liability Growing

Since the program’s inception, Social Security has functioned on a pay-as-you-go basis, with current workers paying taxes to finance the benefits of retirees. Bush pointed out that the number of workers paying for each retiree has declined from 16 workers per retiree in 1950 to 3.3 now.

The ratio of workers to retirees is con-
tinuing to shrink, putting an ever-grow-
ing burden on workers to fund retiree benefits. Bush cited numbers from the Social Security Trustees report of 2004 showing Social Security will be paying out more than it takes in starting in 2018, with the shortfall growing larger each year.

“Social Security was a great moral success of the twentieth century, and we must honor its great purposes in this new century. The system, however, on its current path, is headed toward bankruptcy. And so we must join together to strengthen and save Social Security.”

PRESIDENT GEORGE W. BUSH
STATE OF THE UNION ADDRESS

“Social Security was a great moral success of the twentieth century, and we must honor its great purposes in this new century. The system, however, on its current path, is headed toward bankruptcy. And so we must join together to strengthen and save Social Security.”

Proposed Investments Small

Under the Bush proposal, workers born before 1950 would not be affected in any way. They would receive their scheduled benefits with no changes. People born in 1950 and after would be given an option to take $1,000 of their annual payroll tax payment and place the money in an investment account they own and control.

Workers could then choose among five different stock and bond indexes in which to invest. The portfolio mix would become more conservative, with lower-risk investments, as workers near retirement. This is termed the life-cycle approach.

Workers would not be able to access their accounts before retirement, nor would they be able to borrow against the balance. Upon retirement, annu-
ities would be used to give workers a steady stream of income over their post-retirement lifetime.

Some estimates suggest younger workers would see their annual rate of return increase from an estimated 1 percent currently to 6 percent under the plan.

Sticky Issues Remain

Opponents of such personal retirement accounts (PRAs) say they would leave workers vulnerable to market downturns. AARP President William Novel-
li told the St. Petersburg Times, “We can’t have the idea of putting risk in Social Security.”

Another concern is the diversion of funds from the current system into personal accounts. Opponents of PRAs have called this a “transition cost.” Other ana-
lysts say it is not really a cost, since debt owed at a later date is being paid off.

“We take on some debt of $100 billion a year for 10 years, but over the long term we’ve paid off $10 trillion of future liabilities,” said Grover Norquist, presi-
dent of Americans for Tax Reform. “I will take that deal any day.”

Interest Rate Effects Debated

Because debt would be used to finance the initial transition, others have argued the Bush plan would increase interest rates. With the government competing with private markets for cash, interest rates would need to be increased to compensate for all the new capital required, critics say.

But in late January, the Bond Market Association stated that bond market interest rates would have no problem handling $100 to $150 billion of new bonding per year. In addition, Goldman Sachs issued a report showing the additional bonding would have little impact on interest rates.

The Bush administration may also seek to change the way Social Security benefits are calculated. Currently, a worker’s benefit is calculated based on wages, which historically have increased faster than prices. The presi-
dent’s plan would base calculations on prices. Opponents of PRAs have seized on this issue as a benefit cut for younger workers.

Supporters argue PRAs are likely to generate higher returns, offsetting any change in the benefit structure.

Tax Code Also an Issue

Bush said Americans “are burdened by an archaic and incoherent federal tax code.” In January he appointed two for-
mer U.S. Senators—Republican Con-
ie Mack of Florida and Democrat John Breaux of Louisiana—to lead a bipartisan panel to study the tax code and recom-
 mend changes. Both men had served on the Senate tax-writing committee.

Recommendations are supposed to be delivered to Treasury Secretary John Snow by the end of July. Final recom-
 mendations are to be delivered to the president by the end of 2005.

Sandra Fabry (sfabry@atr.org) is a government affairs associate of Ameri-
cans for Tax Reform, Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.

MORE INFO

For more information on Social Security reform is available through PolicyBot™. The Heartland Institute’s free online database. Go to http://www.heart-
land.org, click on the PolicyBot™ button, and select Social Security from the topic list.
Outsourcing Not to Blame for 2004 Job Losses

Relocations overseas were negligible factor in more than 1 million job cuts

by James Pedderson

Cost-cutting ranked as the primary reason for payroll reductions by U.S. firms in 2004, accounting for 40 percent, or 419,819 of the 1,039,735 job cuts employers announced, according to a study by global outplacement firm Challenger, Gray & Christmas.

The second-leading cause of job cuts was the closing of facilities, units, offices, or entire companies. Business closure job cuts amounted to 211,012, or 20 percent of last year’s job cuts.

Outsourcing Ranked Last

Of the 13 categories defined by Challenger as reasons for job cutting, outsourcing and offshoring ranked last, accounting for 4,448—just 0.4 percent—of the 2004 job cuts.

Challenger, which initiated its tracking of job-cut reasons in January 2004, designated “outsourcing” as operations fulfilled by an outside service provider located within the United States, while “offshoring” refers specifically to operations or work completed by a firm outside the country.

Between the two, offshoring was the greater cause of job cuts, accounting for 4,316 of the 4,448 announced cuts related to these practices.

“The low number of offshoring-related job cuts reported does not mean that American jobs are not affected by this business practice. Certainly, any job that is being done overseas because of lower cost is a job not being done here,” said John A. Challenger, chief executive officer of Challenger, Gray & Christmas.

“However, in the long run, offshoring will actually create more jobs in America by freeing up financial resources for expansion, research, and development and new higher-skilled, higher-paid workers.”

Mergers Loom

Challenger projected mergers and acquisitions, which resulted in 65,810 job cuts in 2004, could become a leading cause for layoffs in 2005.

“We are seeing a surge in M&A activity as the economy begins to accelerate and companies try to expand their market share by gobbling up the competition,” Challenger said.

Job cuts resulting from such mergers, as the combined company eliminates redundancies and attempts to maximize value,” Challenger said.

Post-merger downsizing was recently demonstrated by Oracle, which announced 5,000 job cuts following the completion of its acquisition of PeopleSoft. In addition, the Cingular/AT&T combination will result in 7,000 job cuts over the next 12 to 18 months.

James Pedderson (press@challengergray.com) is director of public relations at Challenger, Gray & Christmas Inc., a global outplacement firm.

Texas

Continued from page 1

amassed $10.9 billion in surpluses since 1991, and the largest budget shortfall would have been less than $2 billion—a fraction of the recent deficit that created a major budget crisis in the state.

The study also found Texas taxpayers would have received $4.7 billion in tax relief and rebates, and $5.4 billion would have been invested in a budget stabilization fund to better handle revenue shortfalls.

The report was written by Barry Poulsen, a distinguished scholar with the Americans for Prosperity Foundation and professor of economics at the University of Colorado.

Limits Spending Growth

A Taxpayer’s Bill of Rights (TABOR) is a state constitutional amendment that limits the annual growth in government. Under a TABOR, state expenditures and debt cannot grow faster than the rate of annual population growth plus inflation. Surplus revenue received above this amount is placed in a budget stabilization fund, and a portion returned to taxpayers.

Tax increases or spending above the amount of the TABOR limit would require voter approval.

State Rep. Carl Isett (R-Lubbock) introduced a TABOR proposal in the Texas legislature in 2003, but it was not acted on.

Poulsen’s report says Isett’s proposal “is certainly an improvement on the existing tax and spending limit in Texas,” which has “Texas-sized loopholes in it.”

“It would apply the tax and spending limit to a broader definition of revenue covering all state-generated revenues,” the report noted. “It would create a Rainy Day Fund, and allocate half of the surplus revenue to the Rainy Day Fund, and half to tax cuts. It would also raise the bar for the legislature to break the spending cap from a simple majority to a 2/3 vote.”

However, Poulsen noted Isett’s proposal is less stringent than the TABOR amendment he used in his study, which is more closely based on the TABOR amendment currently in place in Colorado.

No Service Cuts Necessary

Poulsen says critics of TABOR “will likely argue that limiting the growth of state spending to the rate of population growth plus inflation would force drastic cutbacks in essential social services,” even though the TABOR does allow government spending to grow.

“Limiting excessive spending does not mean requiring drastic cutbacks in essential state services,” Poulsen says in his report.

“TABOR will force elected officials, like almost any Texas household, to set budget priorities,” Poulsen’s report says. “If one program must grow above the rate of the TABOR limit, another program must grow at a slower rate or be reduced. Further, TABOR allows elected officials to ask voters for approval to increase taxes and debt, and to spend surplus revenue.”

Push for TABOR Expected

Peggy Venable, director of the Texas chapter of the Americans for Prosperity Foundation, says a TABOR amendment will come up in the state’s 2005 legislative session.

“We are seeing a surge in M&A activity as the economy begins to accelerate and companies try to expand their market share by gobbling up the competition,” Challenger said.

Post-merger downsizing was recently demonstrated by Oracle, which announced 5,000 job cuts following the completion of its acquisition of PeopleSoft. In addition, the Cingular/AT&T combination will result in 7,000 job cuts over the next 12 to 18 months.

Peggy Venable, director of the Texas chapter of the Americans For Prosperity Foundation, says a TABOR amendment will come up in the state’s 2005 legislative session.

Steve Stanek (stanek@heartland.org) is managing editor of Budget & Tax News.
Kansas

Continued from page 1

2003 Decision Partly Affirmed

The dollar amount of their claim stems from an earlier ruling issued in December 2000 by Shawnee County District Judge Terry Bullock, who ordered the state to spend another $1 billion on education, particularly for minority and low-income students. Bullock based his decision on a finding that Kansas’ school funding formula is unconstitutional and discriminatory.

The Kansas State Board of Education and the Kansas legislature, represented by the state attorney general’s office, appealed Bullock’s decision.

The Kansas Supreme Court reversed Bullock’s decision in part and affirmed it in part. The two reversals said the state’s formula for distributing public school funding was constitutional, and there were no equal protection violations or discriminatory actions by the state.

However, the state supreme court also upheld part of Bullock’s decision by saying, “We affirm the district court’s holding that the legislature has failed to meet its burden as imposed by Art. 6 Sec. 6 of the Kansas Constitution to ‘make suitable provision for finance’ of the public schools.”

Court Acknowledges Questions

The court closed the decision by saying, “We are aware that our decision 1) raises questions about continuing the present financing formula pending corrective action by the legislature; 2) could have the potential to disrupt the public schools; and 3) requires the legislature to act expeditiously to provide constitutionally suitable funding for the public school system.

“Accordingly, at this time we do not remand this case to the district court or consider a final remedy, but instead we will retain jurisdiction and stay all further proceedings to allow the legislature a reasonable time to correct the constitutional infirmity in the present financing formula. In the meantime, the present financing formula and funding will remain in effect until further order of the court.”

The order further warned, “Its [the legislature’s] failure to act in the face of this opinion would require this court to direct action to be taken to carry out that responsibility.”

The court gave the legislature until April 12 to act.

Attorney General Largely Pleased

In a statement issued January 6, Kansas Attorney General Phill Kline (R) said, “The decision handed down by the Kansas Supreme Court upholds key aspects of the Kansas school finance formula contrary to the previous opinion issued by District Court Judge Terry Bullock.”

Among other things, Kline said, the court “gave deference to the governor and legislature to set educational policy and schools will remain open,” “rejected plaintiffs’ equal protection claims under both the Kansas and United States Constitutions,” and “rejects Judge Bullock’s claims that suitable means equal and thereby resists the temptation to punish excellence and mandate mediocrity.”

Kline suggested legislators have several options for addressing the ruling aside from raising spending and taxes. For instance, he said they could change the school aid formula to weight more heavily the needs of districts with a high proportion of minority, low-income, or special education students. He also suggested defining “suitable” funding by statute and amending the Kansas Constitution.

“Today’s ruling is notable in that it very clearly does not mandate a tax hike on Kansas taxpayers and in that it requires the state to finally analyze how effectively our education dollars are spent.”

ALAN COBB, KANSAS DIRECTOR
AMERICANS FOR PROSPERITY FOUNDATION

Governor Waiting for Legislators

Gov. Kathleen Sebelius (D) has said she will wait to hear proposals from state legislators before recommending how to deal with the ruling. Sebelius last year proposed a $300 million tax increase for schools, but legislators rejected the proposal.

In a January 7 article, Sebelius was quoted as telling reporter Scott Rothschild of the Lawrence Journal World, “A lot of them decided last year they wanted to wait until the court gave direction. So I’m ready, willing and able to work with them in any way possible, but I think the legislature needs to come together with a plan.”

Alan Cobb, director of the Kansas chapter of the Americans for Prosperity Foundation, said in a prepared statement, “Today’s ruling is notable in that it very clearly does not mandate a tax hike on Kansas taxpayers and in that it requires the state to finally analyze how effectively our education dollars are spent.

“As the legislature considers its options, Americans for Prosperity will continue to discuss constructive solutions that will protect taxpayers and also make sure that the vast majority of this year’s scheduled 12 percent increase in education spending is effectively spent in our children’s classrooms.”

Education & Capitalism

How Overcoming Our Fear of Markets and Economics Can Improve America’s Schools

“Walberg and Bost have written a scholarly, readable, and timely book that cogently explains how market competition can promote school improvement. I recommend it as a college-level text in economics, education, or public policy, and to anyone who cares about the education of our children.”

JOSEPH R. VITERITTI
NEW YORK UNIVERSITY

“A first rate book on improving America’s schools that challenges the popular fallacies, misunderstandings, and romantic notions that many have about capitalism and economics and that makes the case for market-based school reforms.”

BRUNO V. MANN
ANNE E. CASEY FOUNDATION

Order your copy today!

$15, 416 pages, November 2003

Contact
The Heartland Institute
19 South LaSalle Street #903, Chicago, IL 60603
Ph: 312/377-4000 Fax: 312/377-5000
www.heartland.org

Karl Peterjohn (k peterjohn@prodigy.net) is executive director of the Kansas Taxpayers Network.
Governors Talk Toll Road Privatization in Indiana and New Jersey

by John W. Skorburg

The governors of Indiana and New Jersey have raised the possibility of leasing roads in their states to private entities.

In Indiana, talk is in the air concerning the 157-mile Indiana Toll Road, which links Illinois and Ohio. In New Jersey, the 148-mile New Jersey Turnpike, linking the George Washington Bridge in New York with the Delaware Memorial Bridge, may be leased to private concerns.

Indiana Toll Road Attractive

In a January 4 conference call with reporters, Indiana Gov. Mitch Daniels (R) (who at the time was governor-elect) stated the Indiana Toll Road may indeed “one day land on the auction block as part of a mass liquidation of state assets.”

When asked if Chicago’s recent agreement to a 99-year, $1.8 billion lease of the Chicago Skyway—a nearly eight-mile stretch of toll road built more than 40 years ago—made the idea more attractive for Indiana, Daniels said the Skyway lease brought home “a very handy current illustration of what creative solutions are possible,” according to the Chicago Sun-Times.

A consortium of overseas investors paid a $1.8 billion lump sum to Chicago in January for the Skyway lease. The Sun-Times quoted Daniels as saying he will “command top department heads to inventory state assets for possible sale.”

“The Indiana Toll Road is prime candidate for privatization due to its linkages with other tollways and the density of truck traffic,” noted Joe Schwieterman, a transportation professor at DePaul University.

“Several firms are interested in this aging state asset,” Schwieterman said. “If the state plays it’s cards right, motorists and taxpayers could benefit from an infusion of private capital.”

NJ Turnpike Deal Possible

On January 23, New Jersey Star Ledger reporters Josh Margolin and Jeff Whelan wrote, “acting Gov. Richard Codey is studying the possibility of leasing one or more toll roads, including the New Jersey Turnpike.”

Codey is currently leading the state after scandal chased former governor James E. McGreevey from office in November 2004. Codey, a Democrat, also holds the post of State Senate president. He is looking for funds to fill a $4 billion gap in the state’s budget.

Codey told the Star Ledger, “It makes sense that when you take over a business that’s struggling you look at ways to leverage your assets. There’s a lot of assets the state has. I’ll look at anything.”

“Several firms are interested in this aging state asset. If [Indiana] plays its cards right, motorists and taxpayers could benefit from an infusion of private capital.”

by Robert W. Poole, Jr.

At the very time state Departments of Transportation (DOTs) are desperately short of funds for highway investment, global capital markets are awash with capital for economically sound highway projects. Wise governments will take advantage of this.

Long terms (50- to 99-year leases) make it feasible for the private sector to pay significantly more for a highway project, because of the potential of large long-term gains. This applies not only to existing assets such as the $1.8 billion Chicago Skyway deal, but also to new projects.

In December 2004, the Texas DOT selected the winning bidder to develop the first Trans-Texas Corridor. CINTRA—an international group of engineering, construction, and financial firms—has committed $7.2 billion for this project, of which $6 billion will be used to construct the 316-mile, four-lane toll road. The other $1.2 billion is a franchise fee, to be paid to the Texas DOT over the decade or more of construction, in exchange for the right to charge tolls for 50 years.

Although the idea of investor-owned highways strikes people as odd, because it’s unfamiliar, it is no more radical than investor-owned electric utilities or investor-owned telecommunication firms. All are vital elements of infrastructure that we use every day. The long U.S. history of success with investor-owned utilities (contrasted with state-owned utilities in most other countries for most of the twentieth century) should give us confidence that the market can handle highways, too.

Robert Poole (bob@reason.org) is director of transportation studies and founder of Reason Foundation.

Three Lessons in Highway Privatization

by Robert W. Poole, Jr.

Three Lessons in Highway Privatization

by Robert W. Poole, Jr.

Private Analysts Predict Windfalls

“I’d be surprised if the New Jersey Turnpike wouldn’t bring $10 billion ... and it might bring $20 billion. This is one big, solid business, a good place for investors to invest,” said Peter Samuel, editor of Tollroads News, to the Star Ledger.

“Just when you think there’s no other way to address a $5 billion to $10 billion gap—boom, they come up with something else,” said Arturo Perez, a budget analyst with the National Conference of State Legislatures, to the newspaper.

Neil Gray, a government affairs official with the International Bridge, Tunnel, and Turnpike Association, told the Star Ledger, “conversion of toll roads into private operations is getting more popular as budget woes linger.”

New Jersey Pol Interested

New Jersey Assembly Transportation Committee Chairman John Wisniewski (D-Parlin) told the Star Ledger, “as the trust fund that finances new transportation projects in New Jersey nears bankruptcy next year, the privatization of toll roads may be worth study.

“It is something we should examine to understand whether it is something that can work for New Jersey,” he said. “If we’re talking about making transportation better and providing more resources for transportation, and at the same time making government smaller, then let’s talk about it.”

Analysts Like Possibilities

Robert Poole, founder of the Reason Foundation and a nationally known expert on privatization and transportation policy, said, “I’ve been very excited to see the recent expansions in the scope of U.S. highway privatization. I’ve done several interviews with reporters on this subject, including one on the potential for privatizing the New Jersey Turnpike.”

Geoffrey Segal, director of government reform studies at Reason, said toll road privatization plans are worthy of study and implementation.

“This represents a win-win for taxpayers. States and cities can get money-losing initiatives off their books, while improving the quality of the infrastructure and the services provided to users,” Segal said.

“In addition,” Segal continued, “the divestiture infuses much needed one-time cash resources to cover budget shortfalls or enable other capital investments to move forward.”

by Robert W. Poole (skorburg@heartland.org) is a visiting lecturer in economics at the University of Illinois-Chicago and associate editor of Budget & Tax News.
Virginia

Continued from page 1

the business has no physical presence, became law and has been adopted as model legislation by the American Legislative Exchange Council (ALEC).

Virginia State Delegate Tim Hugo (R-Fairfax) introduced HB 1463, which may soon find its way onto lawmakers’ desks across the nation.

Defense Against Other States

Supporters of HB 1463 say it defends against efforts by other states’ tax administrators to collect sales and use taxes from customers in Virginia.

“The SSTP really is yet another scheme by big spenders to dig deep into taxpayers’ wallets. In the short run, it will lead to the extension of the state sales tax base into areas it has never touched before, and in the long run, to a lack of tax competition and the slow creep upwards in the sales tax burden.”

GROVER NORQUIST, PRESIDENT
AMERICANS FOR TAX REFORM

The collection of those taxes across state borders is a goal of the Streamlined Sales and Use Tax Project (SSTP), which seeks to simplify the states’ sales and use tax systems. In March 2000, the National Conference of State Legislatures (NCSL), National Governors Association (NGA), Multistate Tax Commission (MTC), and Federation of Tax Administrators (FTA) joined forces to sponsor the SSTP. Forty-two states and the District of Columbia are involved.

States that adopted the SSTP would collect sales and use taxes for items purchased in their state by out-of-state buyers. Tax collections would depend not on where an item was sold, but instead on where the buyer took delivery. The taxes in place where the buyer was located would apply.

More than Streamlining

Taxpayer advocates, however, do not consider the effort to be a benign project.

Said Grover Norquist, president of Americans for Tax Reform (ATR) in Wash-

ington, DC, “The SSTP really is yet another scheme by big spenders to dig deep into taxpayers’ wallets. In the short run, it will lead to the extension of the state sales tax base into areas it has never touched before, and in the long run, to a lack of tax competition and the slow creep upwards in the sales tax burden.”

Pete Sepp, vice president of communications at the National Taxpayers Union (NTU), agreed. “All too many states and localities hope they can enact their ‘Streamlined Sales Tax’ cartel through the back door, by shaking down businesses one at a time. But no matter how this new policy is enacted, taxpayers ultimately lose, by being deprived of the benefits of higher prices as businesses pass along their increased collection costs.”

Committed to Tax Sovereignty

Hugo said, “By enacting this declaratory judgment law, Virginia has expressed its firm commitment to tax sovereignty and the limits of the Interstate Commerce Clause. To the extent the effort to pass a national sales tax collection scheme is premised on completely opposite values, the law I sponsored certainly runs counter to its guiding policy.

“By law supports tax boundaries, small businesses, and taxpayers, and promotes Internet commerce, while the national sales tax collection proposal erases tax boundaries and burdens businesses and taxpayers.”

A 1996 U.S. Supreme Court ruling held that a state may not require retailers without nexus (a physical presence in the state) to collect sales taxes for the state. Absent such a nexus, requiring retailers to collect taxes for the state was considered an undue burden on interstate commerce, and thus a violation of the Constitution. Yet, in the context of the SSTP’s attempt to establish uniform definitions for tax- able goods and services, tax administrators in some states are currently pressing businesses with no “bricks and mortar” presence to collect sales and use taxes on their behalf.

Blocking Big Spenders

HB 1463 establishes a statutory right for businesses incorporated in Virginia to bring a lawsuit in Virginia’s courts seeking a declaratory judgment on whether the business can be required to collect sales or use taxes for another state without violating the Commerce Clause of the U.S. Constitution.

The assumption behind the bill is that a local court would be likely to rule in favor of a Virginia-based business that has no clear physical presence in another state. Once a court has determined there is no nexus, that determination has to be honored by sister states under the “full faith and credit clause” of the U.S. Constitution.

“Essentially, the measure blocks one way by which insatiable big spenders reach into taxpayers’ wallets, by giving business the opportunity to seek protection under the U.S. Constitution,” Norquist said.

Benefits for Small Businesses

Karen Kerrigan, executive director and CEO of the Small Business and Entrepreneurship Council, reflected on the benefits of the legislation for small businesses.

“Small businesses already face exorbitant compliance burdens in terms of taxation. Under this law, they can now get a judicial determination in an unbiased forum without the burden of litigation in a distant place. If the court rules in their favor, they are freed from the burden of compliance cost.”

KAREN KERRIGAN, EXECUTIVE DIRECTOR AND CEO
SMALL BUSINESS AND ENTREPRENEURSHIP COUNCIL

“Small businesses already face exorbitant compliance burdens in terms of taxation. Under this law, they can now get a judicial determination in an unbiased forum without the burden of litigation in a distant place. If the court rules in their favor, they are freed from the burden of compliance cost.”

SANDRA FABRY (sfabry@atr.org) is state government affairs associate with Americans for Tax Reform.

Increasingly Aggressive Taxers

According to Michael Keegan, director of the ALEC Tax and Fiscal Policy Task Force, out-of-state tax collectors are becoming more aggressive in demanding sales and use taxes from businesses that may not have any physical connection with those states.

“Small businesses already face exorbitant compliance burdens in terms of taxation. Under this law, they can now get a judicial determination in an unbiased forum without the burden of litigation in a distant place. If the court rules in their favor, they are freed from the burden of compliance cost.”

KAREN KERRIGAN, EXECUTIVE DIRECTOR AND CEO
SMALL BUSINESS AND ENTREPRENEURSHIP COUNCIL

The Virginia law provides in-state retailers an important new tool to protect themselves from unfair and costly litigation with out-of-state tax administrators by providing declaratory relief to determine if that business meets the nexus standard and thus a violation of the Constitution.”

“How ironic that in an age where the global economy is expanding every day, some government officials here at home would impose a new tax regime to choke the flow of goods and services within the United States itself,” Sepp said. “True taxpayer advocates in state legislatures across America should follow Virginia’s lead and stop these tax trespassers in their tracks.”

Similar Bill in Kansas

The issue is clearly on the radar screen in many states. Kansas Speaker of the House Doug Mays (R-Topeka) thinks the issue will be on the agenda this year.

“I expect Kansas to take up the nexus enforcement issue,” Mays said. “As a state, we have struggled under the heavy burden that the ‘streamlined’ sales tax project has been to our businesses and taxpayers. The project continues to become more complicated and expensive with each passing day.”

Sandra Fabry (sfabry@atr.org) is state government affairs associate with Americans for Tax Reform.

Budget & Tax News

is free for elected officials. Others may subscribe for $36 for 10 issues!

Sign up online at www.heartland.org, call 312/377-4000, or write to:

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

17

BUDGET & TAX NEWS MARCH 2005
Farm Aid Getting Hit From Left and Right

by John W. Skorburg

Liberals and conservatives have agreed to cut farm subsidies.

From Left and Right

Illinois Farm Leader Concerned

The war against agricultural subsidies is out there, adding, “Congress and the administration are going to be in a really hot spot.”

“U.S. farmers received $19 billion in crop subsidies and disaster relief in 2003, an amount that is drawing criticism from people on the left and the right of the political spectrum.”

Former AFBF President Dean Kleckner told the Tribune, “The war against [agricultural] subsidies is out there,” adding, “Congress and the administration are going to be in a really hot spot.”

Kleckner also warned, “American farmers and European farmers better get their head out of the sand and wake up and smell the coffee.” The United States and European nations continue to discuss farm payments and world agricultural production in the World Trade Organization.

Nelson wrote, “We farmers need to be prepared to work for good, long-term policy and aggressively defend our views with both facts and feelings. We need to remind consumers that only 11 cents of each dollar is spent on food—the lowest percentage in the world.

“Despite what our critics say, I think farmers simply want some measures of economic stability and security for themselves and for their families,” Nelson said. “We need policy tools in order for us to manage our own businesses within one of the most volatile industries in America.”

John W. Skorburg (skorburg@heartland.org) is a visiting lecturer at the University of Illinois-Chicago and associate editor of Budget & Tax News.
The USDA Budget at a glance 2003-2005

<table>
<thead>
<tr>
<th>AGENCY</th>
<th>2003 ACTUAL $ Millions</th>
<th>2004 ESTIMATE $ Millions</th>
<th>2005 BUDGET $ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FARM AND FOREIGN AGRICULTURAL SERVICES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm Service Agency</td>
<td>$912</td>
<td>$850</td>
<td>$868</td>
</tr>
<tr>
<td>Commodity Credit Corporation Programs</td>
<td>13063</td>
<td>14193</td>
<td>14998</td>
</tr>
<tr>
<td>Risk Management Agency</td>
<td>2977</td>
<td>3836</td>
<td>4187</td>
</tr>
<tr>
<td>Foreign Agricultural Service</td>
<td>279</td>
<td>274</td>
<td>312</td>
</tr>
<tr>
<td>P.L. 480</td>
<td>1894</td>
<td>521</td>
<td>745</td>
</tr>
<tr>
<td>RURAL DEVELOPMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Community Advancement Program</td>
<td>1023</td>
<td>725</td>
<td>542</td>
</tr>
<tr>
<td>Salaries and Expenses</td>
<td>145</td>
<td>141</td>
<td>150</td>
</tr>
<tr>
<td>Rural Utilities Service</td>
<td>-2077</td>
<td>-1149</td>
<td>-1088</td>
</tr>
<tr>
<td>Rural Housing Service</td>
<td>364</td>
<td>37</td>
<td>125</td>
</tr>
<tr>
<td>Rural Business Cooperative Service</td>
<td>94</td>
<td>207</td>
<td>-149</td>
</tr>
<tr>
<td>Rural Empowerment Zones/Enterprise Communities</td>
<td>15</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>FOOD, NUTRITION, AND CONSUMER SERVICES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food and Nutrition Service</td>
<td>41970</td>
<td>47293</td>
<td>50167</td>
</tr>
<tr>
<td>NATURAL RESOURCES AND ENVIRONMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural Resources Conservation Service</td>
<td>2274</td>
<td>2912</td>
<td>2669</td>
</tr>
<tr>
<td>Forest Service</td>
<td>5863</td>
<td>5367</td>
<td>4910</td>
</tr>
<tr>
<td>FOOD SAFETY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food Safety and Inspection Service</td>
<td>758</td>
<td>778</td>
<td>718</td>
</tr>
<tr>
<td>RESEARCH, EDUCATION, AND ECONOMICS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural Research Service</td>
<td>1295</td>
<td>1168</td>
<td>1189</td>
</tr>
<tr>
<td>Cooperative State Research, Education, and Extension Service</td>
<td>1130</td>
<td>1244</td>
<td>900</td>
</tr>
<tr>
<td>Economic Research Service</td>
<td>69</td>
<td>71</td>
<td>80</td>
</tr>
<tr>
<td>National Agricultural Statistics Service</td>
<td>138</td>
<td>128</td>
<td>138</td>
</tr>
<tr>
<td>MARKETING AND REGULATORY PROGRAMS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Animal and Plant Health Inspection Service</td>
<td>1203</td>
<td>868</td>
<td>976</td>
</tr>
<tr>
<td>Agricultural Marketing Service</td>
<td>209</td>
<td>206</td>
<td>215</td>
</tr>
<tr>
<td>Section 32 Funds</td>
<td>1227</td>
<td>1147</td>
<td>800</td>
</tr>
<tr>
<td>Grain Inspection, Packers and Stockyards Administration</td>
<td>40</td>
<td>36</td>
<td>15</td>
</tr>
<tr>
<td>DEPARTMENTAL ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of the Secretary</td>
<td>11</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>Common Computing Environment</td>
<td>132</td>
<td>119</td>
<td>137</td>
</tr>
<tr>
<td>Office of Civil Rights</td>
<td>0</td>
<td>18</td>
<td>22</td>
</tr>
<tr>
<td>Departmental Administration</td>
<td>38</td>
<td>22</td>
<td>26</td>
</tr>
<tr>
<td>Agriculture Buildings and Facilities</td>
<td>196</td>
<td>167</td>
<td>204</td>
</tr>
<tr>
<td>Hazardous Waste Management</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>Office of the Chief Financial Officer</td>
<td>6</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Office of the Chief Information Officer</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Office of the General Counsel</td>
<td>35</td>
<td>34</td>
<td>39</td>
</tr>
<tr>
<td>Office of the Inspector General</td>
<td>74</td>
<td>77</td>
<td>78</td>
</tr>
<tr>
<td>Office of Communications</td>
<td>9</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>Executive Operations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of the Chief Economist</td>
<td>10</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>National Appeals Division</td>
<td>13</td>
<td>13</td>
<td>15</td>
</tr>
<tr>
<td>Office of Budget and Program Analysis</td>
<td>7</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Homeland Security Support Staff</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Working Capital Fund</td>
<td>14</td>
<td>14</td>
<td>13</td>
</tr>
<tr>
<td>Gifts and Bequests</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Subtotal</td>
<td>81,442</td>
<td>81,386</td>
<td>84,081</td>
</tr>
<tr>
<td>Offsetting Receipts</td>
<td>$78,386</td>
<td>$78,434</td>
<td>$83,283</td>
</tr>
</tbody>
</table>

*Note: Most farm payment programs are included in the Commodity Credit Corporation Programs. The current estimate for those programs for FY2005 is $15 billion. This is 18 percent of the total USDA budget for 2005. By comparison, the Food and Nutrition Service Programs, which includes food stamps and school lunch programs, is estimated at $50 billion for 2005, or 60 percent of the total USDA budget.*
Isn’t it time you joined a think tank?

The Heartland Institute is a national nonprofit organization devoted to informing elected officials and the public on important public policy issues. It publishes *Budget & Tax News*, as well as monthly newspapers on taxes, health care, and school reform and other publications addressing a wide range of topics.

We invite you to join the more than 1,600 individuals, foundations, and corporations who want to make the world a better place. Have the satisfaction of knowing you are working with others to restore the individual freedom and limited government that made this country great.

$29 Members receive:
- Membership certificate
- *The Heartlander*, a monthly newsletter
- Free policy studies
- Invitations to events

$49 Members will also receive:
- 20 percent off admission to all events
- Any two of our four monthly newspapers (a $72 value!)

$99 Members will also receive:
- All four monthly newspapers (a $144 value!)
- Free Heartland books and major publications
- Recognition in *The Heartlander* and the Anniversary Benefit program

* Source: Bureau of the Public Debt, U.S. Department of the Treasury

www.heartland.org