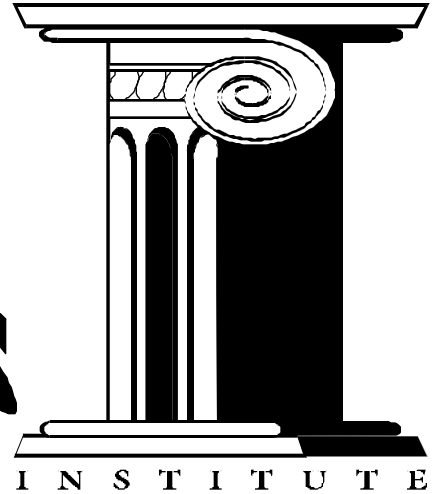


LIMITS



On Power and the Use of Power

I N S T I T U T E

Initiative and Referendum in the States

by Amy K. Frantz

In a few states, lawsuits have been filed against measures approved by the voters, while in other states Initiative and Referendum supporters and opponents are getting ready for the next election season.

CALIFORNIA

Following the approval in June 1998 of Proposition 227, the English for the Children Initiative to reform bilingual education, opponents filed a lawsuit to block the implementation of the initiative. Attorneys for Proposition 227 presented arguments in a motion to dismiss the accusations made by the Mexican American Legal Defense and Education Fund (MALDEF), one of the Initiative's main opponents. A ruling on the motion should be forthcoming.

COLORADO

The U.S. Supreme Court struck down Colorado's attempt to curtail the initiative process through regulations and restrictions. The Supreme Court's ruling, written by Justice Ruth Bader Ginsburg, stated that Colorado's restrictions were "undue hindrances to political conversations and the exchange of ideas."

Legislators in Colorado imposed regulations on individuals gathering signatures to place measures on the state's ballots. Signature gatherers were required to be registered electors and to wear badges with their name, address, whether they are paid or a volunteer, and if paid, by whom. Additional paperwork requirements were placed on initiative sponsors.

This ruling could have an impact in several of the 24 Initiative states, in which elected officials have tried to limit the initiative process with

similar regulations and restrictions, according to John Boehm, Counsel for the Initiative and Referendum Institute.

FLORIDA

In Florida, the "Crusade for Freedom" launched a petition drive to place at least four measures on the ballot in the year 2000. The Crusade for Freedom is a coalition of supporters who are pooling their resources to push for voter approval of these initiatives.

One initiative promoted by the Crusade will require prisoners to serve at least 85 percent of their sentence. A second eliminates the single-subject rule for initiatives, which supporters say activist judges have used to remove many initiatives from the ballots, blocking citizens from self-government.

Two judicial reform

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LIMITS

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President

Dr. Don Racheter

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The Optimal Size of our Federal Government

by Amy K. Frantz

In *Government Size and Economic Growth*, a report prepared for the Joint Economic Committee of the United States Congress, Richard K. Vedder and Lowell E.

Gallaway, Distinguished Professors of Economics at Ohio University, look at the impact of the size of government on our nation's economic output.

Vedder and Gallaway maintain that "no society throughout history has ever obtained a high level of economic affluence without a government." With no government, there is anarchy, and without rule of law and protection for private property there is no incentive to save or invest. However, a government that is too big will monopolize resources and stifle enterprise. The key is to find the optimal size of government.

To find the optimal size of the federal government, the authors use the Arme Curve, developed by U.S. Representative Dick Arme, an economist. The Arme Curve demonstrates that with no government (anarchy) or too much government ("all input and output decisions are made by the government") output per capita is low. Output per capita will rise as a nation's government develops and expands, but as government grows too large, additional government spending leads to

diminishing returns and higher taxes. "[G]overnment in moderation is good for the economy while in excess it is bad."

Vedder and Gallaway calculate that the peak of the Arme Curve, or the point at which more federal government leads to diminishing returns and

"[G]overnment in moderation is good for the economy while in excess it is bad."

lower output, equals 17.45 percent of Gross Domestic Product (GDP). The level of recent federal spending is 20 to 22 percent of GDP, meaning that our nation's government is 12 to 20 percent larger than its optimal size. Federal government spending has been above 17.5 percent of GDP since 1965, meaning that we have been operating our federal government in the downward-sloping portion of the Arme Curve for over thirty years.

The moderate downsizing of federal spending as a percentage of GDP in recent years (1991-1997) has raised the GDP level by almost one percent. "[T]he moderate downsizing of the relative size of government added roughly

0.15 percentage points to the average annual GDP growth observed over the past six years.” The authors say this suggests that further downsizing of the government, to the optimal size of federal spending equal to 17.45 percent of GDP, would increase our nation’s growth and output. “[T]he results...suggest that reducing federal spending by about 2.75 percent of GDP (or by about \$225 billion) would raise GDP by slightly more than \$30 billion a year.”

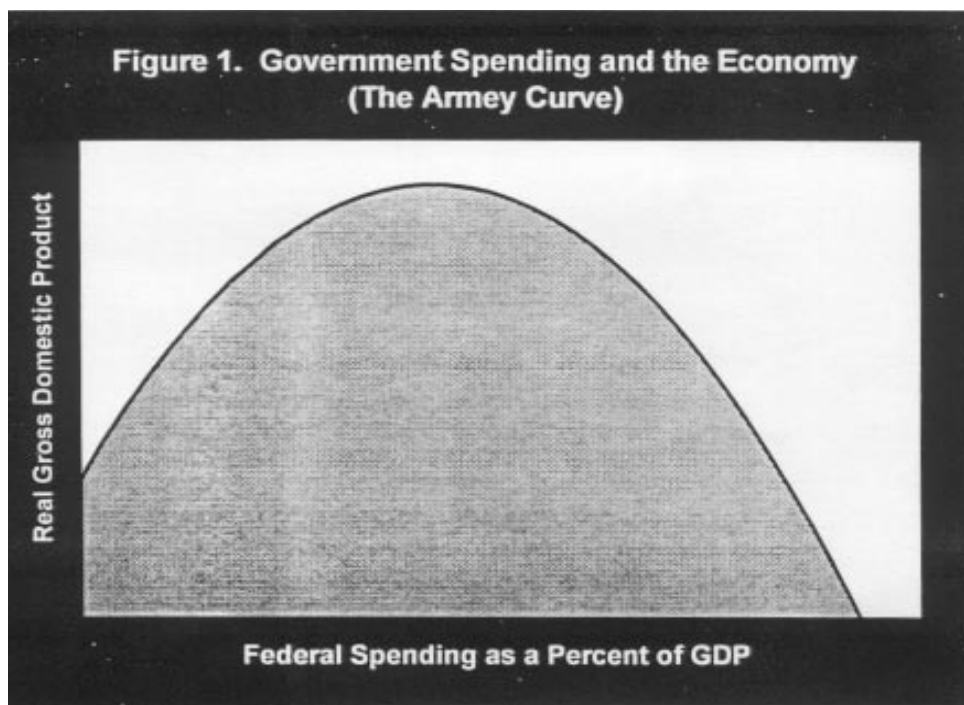
The study then looks at individual components of federal spending to determine their impact on national output and whether the Arme y Curve exists for individual categories of spending. Findings show that the Arme y Curve does exist for entitlement spending (income security, health, Social Security, and Medicare), income security programs

(AFDC, food stamps, etc.), and net interest payments on the national debt. These findings suggest, according to Vedder and Gallaway, federal budget planners should keep the growth in federal spending below the growth of total output (reducing federal spending as a percentage of GDP), limit the growth of entitlements relative to income and output, and maintain balanced budgets to reduce the federal government’s net interest payments as a percent of GDP over time.

“Government serves many useful functions, including some economic ones.” However, a government that is too big has negative consequences for the growth and output of a nation. Dr. Vedder and Dr. Gallaway’s study shows that constraining government spending would have a positive impact on economic growth.

Richard K. Vedder and Lowell E. Gallaway are Distinguished Professors of Economics at Ohio University. Dr. Vedder serves as a member of Public Interest Institute’s Academic Advisory Board.

Dr. Vedder and Dr. Gallaway are the authors of a chapter of the upcoming book LIMITING LEVIATHAN, edited by Dr. Don Racheter, President of Public Interest Institute, and Dr. Richard Wagner, Economics Professor at George Mason University and Chairman of PII’s Academic Advisory Board. LIMITING LEVIATHAN makes a case for limited government and discusses the types of limitations on government that are appropriate and necessary. LIMITING LEVIATHAN will be available this spring from Edward Elgar Publishing Limited.



Source: *Government Size and Economic Growth*, a report prepared for the Joint Economic Committee of the United States Congress, by Dr. Richard K. Vedder and Dr. Lowell E. Gallaway, December 1998, p. 2.

Power to the People on Taxes

by Grover Norquist

In his State of the State Address, Governor George Pataki (N.Y.) boldly called on the Legislature to adopt a Constitutional amendment to require a two-thirds supermajority to raise taxes for the state. "The act of raising taxes is a destructive act, and should therefore be a difficult act," said Pataki.

I couldn't agree with him more. In Washington, D.C. and state capitals across America, there is an inherent bias toward increased spending over reducing taxes. A supermajority requirement would properly make tax hikes more difficult and begin to focus government policy on cutting wasteful spending rather than increasing taxes.

Opponents of Governor Pataki's plan to require a supermajority vote to approve all tax increases will argue that it is contrary to majority rule. They will argue that all business should be conducted as 50 percent plus one. However, there are ten instances in the U.S. Constitution which require a two-thirds vote and each state has similar Constitutional provisions.

In addition, taxes in many cases last just as long as constitutional amendments. New Yorkers and the rest of the country are still paying a 3 percent telephone tax which was first instituted to pay for

the Spanish-American War. Last time we checked, that war had been over for a while. Taxpayer advocates learned long ago that entrenched taxes are very difficult to remove from the code.

Supermajority protection for taxpayers has been sweeping the nation since 1978, when California voters overwhelmingly approved "Proposition 13." Proposition 13 was the opening shot of the anti-tax movement that swept Ronald Reagan into the presidency two years later. Today there are 14 states with supermajority requirements for tax hikes: Arizona, Arkansas, California, Colorado, Delaware, Florida, Louisiana, Mississippi, Missouri, Nevada, Oklahoma, Oregon, South Dakota, and Washington.

The drive for supermajority requirements to protect taxpayers continues strongly. Governor Pataki joins Governor John Engler of Michigan, Governor Tom Ridge of Pennsylvania, Governor Christine Todd Whitman of New Jersey, and Governor Edward Shafer of North Dakota who have all begun campaigns in their respective states to enact a constitutional requirement for a supermajority vote to raise taxes in their state. Over the next two years with Washington in gridlock, Republican Governors are going to be the driving

force of the GOP. Almost all Republican Governors, both conservative and moderate, share the goal of protecting taxpayers from easy tax hikes.

Since 1995, the Congress votes each and every April 15 on the Tax Limitation Amendment sponsored by Congressmen Joe Barton (R-TX), John Shaddeh (R-AZ), and Ralph Hall (D-TX) in the House and by Senator Jon Kyl (R-AZ) in the Senate. This annual vote for the two-thirds supermajority requirement to raise taxes has been held every year since the Republicans took the Congress. House Speaker Dennis Hastert and Senate Majority Leader Trent Lott promise that the vote will take place each year until the amendment passes.

Voters agree with Governor Pataki's plan. According to the polling company, 68 percent of voters would be more likely to support a complete overhaul of the tax system if it included a two-thirds supermajority. Seventy-five percent said they would be more likely to vote for their current member of Congress if they voted for a two-thirds supermajority. And 78 percent would feel more confident of their state taxes if they learned their state has a two-thirds supermajority requirement such as that in California.

Taxpayers in New York and

around the country appreciate the leadership of Governor Pataki on this issue. Not only will his efforts protect taxpayers in the state of New York, it will help the efforts of pro-taxpayer members of Congress to extend this protection to federal taxes. With the hard work of fiscally conservative Governors like Pataki, someday all taxpayers will have this protection against tax increases.

Grover Norquist is President of Americans for Tax Reform. Reprinted with permission from Americans for Tax Reform.

Initiative and Referendum in the States
continued from page 1

measures establish recall provisions for judges and provide for direct election of judges. If approved, judges will run for one eight-year term in a single-member district. A judge cannot run for reelection in the same district, but may run for an additional eight-year term in another district. A judge must live in the county in which the district is located, but not in the district itself.

Supporters say limiting judges to one term in a district curbs the need to raise funds from the district in which a judge presides. This measure

also provides for a voter guide to be sent to every household with information submitted by the judge candidates.

MICHIGAN

The Universal Tuition Tax Credit will most likely be on the ballot in Michigan in the year 2000. The tax credit is not limited to parents; it would be available to any person or group paying tuition at a private school. A credit of up to \$560, or approximately ten percent of the amount the state spends per public-school student, would be available the first year. The amount of the credit would increase each year, up to a maximum of 50 percent of the state's per-student spending.

Opponents have expressed concern about taking these funds away from public schools. Supporters counter that the public schools will have fewer students. The Universal Tuition Tax Credit proposal needs 300,000 signatures to appear on the ballot next year. School choice is a controversial issue, and this proposed measure will certainly continue the highly-charged debate in Michigan.

MONTANA

The Montana Supreme Court struck down the Constitutional Amendment (CI-75) approved by voters in November 1998 to require voter approval of any new or increased taxes imposed by state and local governments, school

districts, or any other taxing authority. The Supreme Court cited technical reasons, rather than the Amendment's subject, for declaring the Amendment unconstitutional. Montana's Constitution prohibits amendments with multiple subjects, and the Supreme Court determined that CI-75 provides for more than a single amendment to the Constitution.

On the year 2000 ballot, Montana residents may see a Legislative referendum on paycheck protection and a measure on school tax credits.

WASHINGTON

Two Washington businessmen are sponsoring an initiative to eliminate the state's car tax. The \$30 License Tab Initiative eliminates the motor vehicle excise tax and replaces it with a flat \$30 annual car license fee. Marty Rood, one of the sponsors of the Initiative, says it will put "hundreds of dollars in the back pockets of working families in Washington State."¹ Residents now pay an average of \$150 per vehicle under the car tax, and the owner of a new \$30,000 car pays a tax of \$660.

ENDNOTE:

¹State Tax Notes, January 11, 1999, p. 95.

Amy K. Frantz is a Research Analyst with Public Interest Institute.

Divorcing The Marriage Penalty

by Gary and Aldona Robbins

In the tax code, a “marriage penalty” occurs when the sum of the taxes owed by two unmarried individuals is less than that owed if the two individuals were married and filed a joint return.

It is also possible to receive a “marriage bonus.” A bonus can occur when one spouse earns all or significantly more than the other. For example, let’s say that same couple’s \$30,000 income was raised entirely by one spouse. As a single filer, the earner would pay \$3,458 in tax, which would be \$833 more than what was owed when filing jointly.

There would be no marriage penalty if the standard deduction and bracket amounts for joint returns were double those for single returns. But the standard deduction for joint returns is currently only 1.67 times that of single returns.

A uniform (flat) tax on income would be the obvious way to end marriage penalties and bonuses, as well as the other numerous penalties and bonuses in the current tax code. But because broad-based reform still seems a ways off, four proposals for eliminating the marriage penalty have received the most consideration:

Optional Filing Status

This proposal would elimi-

nate the marriage penalty by giving couples the choice of how to file — joint or single on the same return.

When itemizing, labor income (such as wages and pensions) would belong to the spouse who received it. Income from capital (such as dividends, capital gains, and interest) would be divided based on asset ownership.

If not itemizing, each spouse would claim the standard deduction for singles. Other deductions would go to the spouse having the income to which the deduction relates. Each spouse would claim one personal exemption and the same share of any dependent exemptions as the spouse’s share of income. Credits would be based on the couple’s combined tax.

Income Splitting

This idea allows couples to split taxable income in half and determine tax liability using the rate schedule for singles. Couples who do not itemize would use a standard deduction twice that for singles. Or, another approach to income splitting would be to make the standard deduction and bracket amounts used by joint filers double those of single filers. Either way, the marriage penalty stemming from the standard deduction and rate schedule

would be eliminated. However, because income splitting operates on taxable income, marriage penalties resulting from other parts of the tax code would remain.

Second-Earner Deduction

Under this proposal, couples with two earners could deduct from adjusted gross income 10 percent of the smaller of: (1) the earnings of the spouse with the lesser income, or (2) \$30,000. The deduction would be “above the line” and have a maximum value of \$3,000.

This limited deduction to the second wage earner would ease the burden of marriage penalties resulting from the standard deduction and bracket amounts. It would not affect penalties arising from other parts of the tax code, but would expand marriage bonuses received by couples with a second earner.

Optional Tax Calculation

With this proposal a couple would prepare their tax return in the same way they do under current law up to the point of calculating taxes owed. The couple would then: (1) calculate tax using the standard deduction and rate schedule for joint returns, or (2) split their income, deductions, and

Initiative Process Works

by Joel Fox

exemptions in proportion to earned income and each use the single standard deduction and rate brackets to figure the tax owed.

This proposal would completely eliminate the marriage penalty arising from the rate schedule and standard deduction while not adding to marriage bonuses. It would, however, preserve most of the other tax penalties.

None of these proposals could be said to be a pro-growth tax cut, because none would have the effect of lowering marginal tax rates on labor and capital. But some would argue that tax policy should have other goals such as equity.

Unlike the issues of taxation and economic efficiency, there is no scientific basis for deciding the right answer to the “fairness” question. However, if the aim is to reduce marriage penalties, the optional filing status or tax calculations proposals should do so without creating more windfalls.

This article was extracted from a recent Institute for Policy Innovation Issue Brief entitled, Reducing the Marriage Penalty: A Good Way to Cut Taxes?, by Gary and Aldona Robbins. Copies are available upon request from IPI or on IPI's web site at www.ipi.org. Reprinted with permission from IPI INSIGHTS, a bimonthly publication of Institute for Policy Innovation.

Twenty years ago, citizens of California were being taxed out of their homes by an out-of-control property tax system. While elected officials did little but talk about the problem, the voters acted. Using the initiative process, they passed Proposition 13, a citizen's law which cut and capped the property tax.

The initiative process will not, and should not, replace representative government. But, as in the instance of Proposition 13, the initiative serves as a safeguard against a grid-locked or indifferent government.

In short, the initiative allows the people to serve as lawmakers when elected representatives fail them. One doesn't have to go back 20 years to discover the value of initiatives. Just last week a newer version of the California Legislature was congratulating itself for passing an important educational reform to provide more parent and teacher controls over local schools.

Good work, except that this reform had been locked up in the legislature for a decade. Only after an initiative drive to accomplish a similar reform gathered the necessary signatures to place the measure on the ballot did lawmakers become serious in order to avoid a bruising and embarrassing initiative campaign.

Issues dealing with important governmental or political reform are too often buried in legislative committees. With the initiative, these reforms, like term limits, reach the voters and frequently are approved.

Critics who claim special interests control the initiative process fail to look at the record. Sure, big-moneyed groups can qualify initiatives for the ballot. But the results of passing special interest initiatives are poor.

Voters are not given enough credit for their ability to make wise decisions at the polls.

Ultimately, the fight over the initiative process centers on that age-old debate about the people's capacity to govern themselves. In this matter, the wisdom of Thomas Jefferson applies as if it were written in defense of the initiative process: “The good sense of the people will always be found to be the best army. They may be led astray for a moment, but will soon correct themselves.”

Joel Fox is President-emeritus of the Howard Jarvis Taxpayers Association in California. Reprinted with permission from the author.

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Initiative and Referendum in Iowa

by Amy K. Frantz

Early in the last session of the Iowa Legislature, a seemingly non-controversial bill was approved to update the elections process. However, this legislation included a provision giving more power to local voters. Many Legislators said they were unaware this provision was in the law, and only became aware of it when the Secretary of State's office proposed regulations to implement the elections update law.

Some say the provisions in the legislation would allow non-binding public referendum on issues. Others say it would give local voters wide-ranging

powers to propose laws and strip unpopular measures from the law books. However, the actual scope of the powers granted to local voters will never be known, because it was removed from the law books by Legislators and the Secretary of State's office.

How did this provision end up in the legislation? And how was it removed from Iowa law? Read more about this matter in the next issue of LIMITS from Public Interest Institute.

Amy K. Frantz is a Research Analyst with Public Interest Institute.

Would you like to learn more about the staff of Public Interest Institute? Read any of the Institute's previous publications? View our "Quote of the Day" from LIMITING LEVIATHAN, a soon-to-be-published book about limiting government?

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