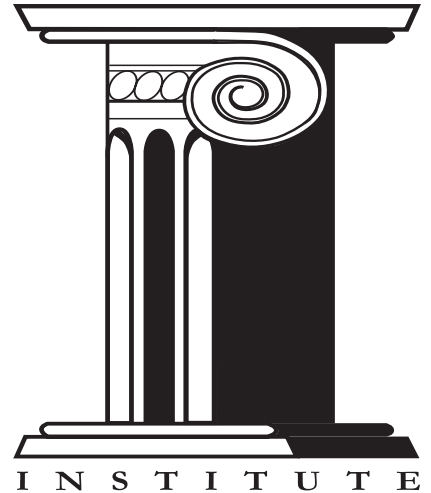


LIMITS



On Power and the Use of Coercion

Private Property Saved Jamestown, And With It, America

by David Boaz

Four hundred years ago today 105 men and boys disembarked from three ships and established the first permanent English settlement in North America. They built a fort along what they called the James River, in honor of their king.

The land was lush and fertile, yet within three years most of the colonists died during what came to be known as "the starving time." Only the establishment of private property saved the Jamestown colony.

What went wrong? There were the usual hardships of pioneers far from home, such as unfamiliar diseases. There were mixed relations with the Indians already living in Virginia. Sometimes the Indians and settlers traded, other times

armed conflicts broke out. But according to a governor of the colony, George Percy, most of the colonists died of famine, despite the "good and fruitful" soil, the abundant deer and turkey, and the "strawberries, raspberries and fruits unknown" growing wild.

The problem was the lack of private property. As Tom Bethell writes in his book *The Noblest Triumph: Property and Prosperity through the Ages*, "The colonists were indolent because most of them were indentured servants, expected to toil for seven years and contribute the fruits of their labor to the common store."

Understandably, men who don't benefit from their hard work tend not to work very hard.

Over the first two years, more colonists arrived from England, including women. By 1609, there were 500 settlers.

And within six months fewer than 100 were still alive. People were desperate. They ate dogs and cats, then rats and mice. They apparently ate their deceased neighbors. And some said that one man murdered and ate his pregnant wife.

By the spring, they had given up. They abandoned the fort and boarded ships to return to England. But miraculously, as they sailed out of Chesapeake Bay, they encountered three ships with new recruits, so they turned around and tried to make another go of it. The additional settlers and supplies kept them alive.

But when a new governor, Thomas Dale, arrived a year after the starving time, he was shocked to find the settlers bowling the streets instead of working.

Dales's most important

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What's New at PII?

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Tax Freedom Day

by Doug Wilson

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Tax Freedom Day arrived two days later this year than last, and Americans aren't happy about it. Fifty-eight percent of those surveyed in a Tax Foundation poll said that the amount of federal income tax they pay is too high. Respondents also expressed dissatisfaction with estate, gasoline, and property taxes, among others.

Who can blame them?

Since 2003, Tax Freedom Day -- the day when, according to the Tax Foundation, Americans have earned enough money to pay their federal, state, and local taxes -- has moved later and later in the year. In 2007 it arrived on April 30; between 2003 and 2006 it arrived on April 18, April 19, April 26, and April 28, respectively. That's an ominous trend, one we should remember as we evaluate the 2008 presidential candidates.

Republicans like to talk about taxes. They often promise to cut or eliminate taxes on the campaign trail. Sometimes they follow through on those promises. That was the case with

President Bush, who cut taxes in 2001 and 2003 -- policies that pushed tax Freedom Day earlier in the calendar.

Democrats don't like to talk about taxes. It makes them uncomfortable. Knowing that a majority of Americans oppose higher taxes, Democrats rarely link their new government program proposals with the tax increases necessary to pay for them. But occasionally Democrats will speak honestly and openly about taxes, and when they do we should listen carefully.

Speaking on NBC's *Meet the Press* in February, John Edwards discussed his plan for a government-funded health care system, and admitted that it would require massive tax increases. "We'll have to raise taxes," Edwards said. "The only way you can pay for a healthcare plan that will cost anywhere from \$90 to \$120 billion is there has to be a revenue source."

That same month Hillary Clinton addressed the Democratic National Committee

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Is a New Tax Revolt on the Horizon?

The case for TABOR

by John Hendrickson

“Realizing the power to tax is the power to destroy, and that the power to take a certain amount of property or of income is only another way of saying that for a certain proportion of his time a citizen must work for the government, the authority to impose a tax upon the people must be carefully guarded.”

Calvin Coolidge, 1924¹

“No taxes can be devised which are not more or less inconvenient and unpleasant,” stated George Washington in his *Farewell Address* to the nation.² A recent report by the Tax Foundation reported that “state and local taxes will consume a record setting 11 percent of the nation’s income in 2007.”³ In 2004 the average household paid \$2,906 dollars in property taxes and \$1,984 dollars of income taxes to state and local governments.⁴ In addition, “Americans paid about \$3 trillion in taxes in 2004, totaling \$26,738 per household.”⁵ Iowa, along with the rest of the states, recently celebrated the annual Tax Freedom Day. Iowans spent about 111 working days this year to pay their obligations to government.⁶

“As a political matter, he who controls my economic destiny controls more of my life as well,” said Judge Antonin Scalia.⁷ It is too often forgotten that economic liberty is just as fundamental as civil rights. Economics is not just a cold mathematical material-focusing science, but a moral philosophy. The power to levy taxation is a power to directly interfere with an individual’s and families’ direct livelihood — as Coolidge said, the power to tax is the power to destroy.

Tax revolts are not new to American history. Thomas Hutchinson and King George III experienced a tax revolt that began the great American experiment. In 1978, Californians revolted against out of control property taxes and passed Proposition 13. Kevin Hassett, in *National Review*, wrote about a new tax revolt is taking place across America, “It has hardly received notice in the national media, but a tax revolt is breaking out all over America.”⁸ As evidence Hassett cites the Florida property tax reform plans that “would either reduce or eliminate property taxes altogether” and a number of other states that have cut property taxes, provided significant rebates, or “capped annual increases.”⁹

The reports issued by the Tax Foundation support Hassett’s thesis that a new tax revolt may be on the horizon. Taxpayers at all levels of government are demanding accountability through budget transparency and through accountability of taxes paid. Taxpayers deserve protection and the best way to protect them is through creating a taxpayer bill of rights. At least thirty states have some form of “tax and expenditure limit” on how much governments can spend, but not all limitations are effective or taxpayer-friendly.¹⁰

In 1992 Colorado became the first state to pass a taxpayer’s bill of rights (TABOR). “TABOR’s main objectives were to contain government taxation and spending growth” in Colorado.¹¹ In addition, “TABOR requires voter approval of all tax and debt increases and other changes in tax policy that would result in more money to government.”¹² In other words, taxpayers themselves have the ability with an up or down vote to reject or accept a tax increase. State fees “are not directly restricted,” but “state government spending is limited to growth of Colorado’s population-plus-inflation in the prior year.”¹³

The purpose of adopting a taxpayer bill of rights is to bring about more accountability in state and local government.

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Is a New Tax Revolt on the Horizon? The Case for TABOR

by John Hendrickson
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A TABOR also slows the growth of state and local governments, provides accountability on tax dollars being spent, and creates “incentives for fiscal prudence and government productivity.”¹⁴

Overall, TABOR has worked until it recently was revised to allow the government to spend tax revenue “over and above the TABOR cap rather than rebate it for the next five years.”¹⁵ Before its revision TABOR protected taxpayer interests, which means that individuals, families, and businesses were protected. Realistically, going back to Judge Scalia’s notion of “economic affairs as human affairs,” states with higher taxation have a negative impact on the human infrastructure of society.

Fred Holden, a Senior Fellow in fiscal and tax policy at the Independence Institute wrote: “Pre-TABOR, government jobs grew slightly more than business or total employment. After TABOR, business job growth nearly doubled that of government job growth.”¹⁶ In addition, as Holden wrote, “The TABOR surplus rebate mechanism returned to taxpayers some \$3.25

billion over five years, fiscal 1997 to 2001, amounting to about \$800 per capita — \$3,200 for an average family of four.”¹⁷

The recent revision of TABOR has reversed course, and what was described as the “time-out” period has resulted in increased taxes.¹⁸ Jon Caldara, President of the Independence Institute, recently noted that the “Colorado legislature’s approval of a provision in this year’s School Finance Act” would raise property taxes in many of the school districts.¹⁹ The legislation, which was signed by Governor Bill Ritter, is “estimated to generate \$1.7 billion in new tax revenue over the next decade.”²⁰ The law will be challenged in court because, under TABOR, tax increases have to be approved by voters.

Several other states are considering TABOR options for their states, and Iowa should seriously consider this as a way to protect taxpayers and provide efficiency to government. Opponents of TABOR will argue that it will deprive transportation, education, healthcare, and other types of government programs of funding. On the other hand, can state and local government entities survive with high tax rates to pay for the programs? Plus, TABOR language would allow voters to approve a tax increase if they so choose. On the other hand if politicians and citizens wish to pay higher taxes, then they should be obliged with

passing “tax-me-more-funds,” which will allow those who wish to pay more to ante up and “donate” more of their paycheck to government coffers.

TABOR is about human rights and ideology — it favors economic liberty and free enterprise over government intrusions and large grandiose programs that seldom achieve their intended purpose. In addition, states are working in an economic system that creates competition between states and even nations across the globe. In order to be economically successful and business friendly, states must have low tax rates.

Once again the power to tax is not just a material decision, but a decision that carries moral responsibilities. Taxes are “inconvenient and unpleasant” as Washington said, but providing taxpayers with a bill of rights will provide more accountability, rein in out-of-control spending and tax rates, and improve the performance of government.

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Private Property Saved Jamestown, And With It, America

by David Boaz

(Continued from page 1)

reform was to institute private property. He allotted every man three acres of land and freed them to work for themselves. And then, the Virginia historian Matthew Page Andrews wrote, "As soon as the settlers were thrown upon their own resources, and each freeman had acquired the right of owning property, the colonists quickly developed what became the distinguishing characteristic of Americans -- an aptitude for all kinds of craftsmanship coupled with an innate genius for experimentation and invention."

John Rolfe, the husband of Pocahontas, said that once private property was instituted, men could engage in "gathering and reaping the fruits of their labors with much joy and comfort."

The Jamestown colony became a success, and people all over Europe flocked to America,

Private property is essential for economic growth; people don't work and invest if they can't reap the fruits of their labors. Property ensures that people will work to better their own condition and that of their families. And that work and investment then benefits the

whole society, much more so than the attempt to force people to work directly for the common good.

But property does something else. As the American Revolutionary Arthur Lee, great-grandson of a Jamestown colonist, wrote, "The right of property is the guardian of every other right, and to deprive people of this, is in fact to deprive them of their liberty." Property is essential to making the government dependent on the people, not vice versa. It divides power, limits government, and protects freedom. No country has ever enjoyed freedom of the press, freedom of religion, or political liberty without secure property rights.

So on this 400th anniversary, let us remember the original Jamestown settlers, who demonstrated the failure of collectivism. Their suffering during the starving time did more than any book could have done to lay a secure foundation for private property rights and thus for the freedom and prosperity we enjoy today.

David Boaz is the Executive Vice President of the CATO Institute. This article appeared on the May 14, 2007 edition of CATO's Daily Commentary and is reprinted with permission.

Time to Eliminate the Alternative Minimum Tax

by John Hendrickson

“Excessive taxation... will carry reason and reflection to every man’s door, and particularly in the hour of election.”

Thomas Jefferson, letter to John Taylor, November 26, 1798.¹

The current status of the U.S. tax code is literally a mess, which hinders economic growth and citizen’s liberty. Serious tax reform is necessary, such as replacing the entire tax code with the Fairtax or a flat tax (similar to Steve Forbes’ flat tax proposal). With that said, any legitimate tax reform will be an uphill battle. In the short term, Congress and the next President should work on eliminating the Alternative Minimum Tax (AMT), which places a heavy albatross around the necks of families and middle-class taxpayers.

The AMT should be evidence enough for all concerned taxpayers that the current code, with all of its loopholes and complexity, actually causes unfair taxation. In 1969 Congress enacted the AMT after “people with adjusted gross income above \$200,000 had paid zero income tax on their 1967 tax returns.”² For most people this would seem unfair, and it is, but our complex tax code allows such loopholes and instead of “eliminating the deductions and credits in the tax code that were leading to the tax avoidance” the AMT was instituted.³

“The alternative minimum tax is a federal income tax imposed on top of the basic income tax.”⁴ It has also been described as a “shadow tax system,” because it has its “own rates and special deductions.”⁵ In a sense it requires certain taxpayers to calculate their taxes with deductions factored in (or not factored in) and then paying the higher tax bill. The AMT is different from the income tax in terms of deductions, exemptions, and rates. In addition the AMT is not indexed for inflation.⁶ Chris Edwards, Director of Tax Policy Studies for the CATO Institute, estimates that without “relief from Congress, 23 million taxpayers will pay the AMT in 2007.”⁷ “In 2006, 4.2 million taxpayers paid about \$25 billion in AMT,” noted Edwards.⁸

Edwards estimates that “23 million taxpayers will have to pay about \$73 billion in AMT in 2007.”⁹ He also notes that “married couples with children and those living in high-tax states will especially be burdened.”¹⁰ As an example, of those individuals “earning between \$75,000 and \$100,000 with two children, 74 percent will be paying AMT by 2010.”¹¹

Sandra Block, writing in *USA Today*, noted some of the taxpayer groups that are or will be vulnerable to the AMT. One of the groups she listed was individuals with large families.¹² “Taxpayers with lots of children sometimes

run into AMT problems, because the exemptions they claim for themselves and their dependents are kicked out by the AMT.

The more exemptions, the more likely you’ll trigger the AMT,” wrote Block.¹³ Not only is the AMT not taxpayer friendly — it is not family friendly. Strong families are the bedrock of a successful and healthy nation and tax policies that weaken the family will also weaken the economy.

The expansion of AMT will mean that more taxes will be paid by the middle class and working families so the government can have more revenue. Revenues from “federal taxes rose 12 percent in fiscal 2006 and are on course to rise 8 percent in fiscal 2007, based on six months of data.”¹⁴ Already, for this year, Congress is considering spending \$3 trillion, and as Rep. Ron Paul (R-TX) reminds us: “We could cut spending by two-thirds and still have a federal government as large as it was in 1990.”¹⁵

The AMT is only making the tax code more complex, inefficient, unfair, and will result in more taxpayers being soaked by this unnecessary tax. It’s time for Congress to repeal the AMT, but taxpayers should also learn that this complex tax is just one chapter of a large leviathan, larger and stranger than the creatures Herodotus wrote about, that is the federal tax code. Congress

and the next presidential administration need to focus on comprehensive tax reform, and full consideration should be given to the Fairtax and flat tax proposals.

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LIMITS

Question of the Quarter:

Should the State of Iowa adopt a TABOR measure?

Send your thoughts on this issue to us at public.interest.institute@limitedgovernment.org.

We may publish some of your ideas in the December 2007 issue of *LIMITS*.

In the June 2007 edition of *LIMITS* we asked if the State of Iowa should enact a smoking ban, even if those establishments are privately-owned businesses.

One *LIMITS* reader responded to our question:

"No, the State of Iowa should not enact a ban on smoking in public places, whether privately-owned or not. It should be up to the business owners or operators to decide whether to be smoke-free or not. Let the market decide!"

Thanks for the response and remember to look for other "Questions of the Quarter" in both *Facts & Opinions* and *Iowa Economic Scorecard*.

Tax Freedom Day

by Doug Wilson

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and called for \$20 billion in new fees and taxes to pay for a new -- and inevitably unworkable -- energy bureaucracy. Clinton said the following: "The other day the oil companies recorded the highest profits in the history of the world. I want to take those profits."

Barack Obama hasn't been any better. He has consistently criticized the 2001 and 2003 tax-cuts, and has said -- as have many of his Democratic colleagues -- that he would roll back the capital gains and stock dividend taxes. This despite the fact that the Dow Jones soared above the 13,000 mark for the first time in history last week, due in large part to those very tax cuts. Leave it to the Democrats to argue with success.

Conservatives have good reason for concern about potentially crippling tax rates under a Democratic administration. For one, we remember the malaise of the Carter years all too clearly; incidentally, we remember the way President Reagan's tax-cutting, pro-growth agenda gave America a booming economy and victory over the Soviet Union.

More than that, we remain concerned about the increasing size and role of government in American life. Consider that

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**Tax Freedom Day
by Doug Wilson
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this year the average American will spend more money on taxes than on housing and healthcare combined. Tax Foundation data also reveals that all taxes as a percentage of income has risen from 5.9 percent in 1900 to 32.7 percent in 2007. Granted, the size of our economy has grown exponentially in that time, so some of the increase in taxes as a percentage of income was certainly good and necessary. However, a steady, seemingly unstoppable growth in government's confiscatory powers does not portend good

things for the future.

One problem is determining where and when growth stops, and that's a difficult task when faced with taxation by a thousand cuts. The Tax Foundation claims we work 43 days to pay our individual income taxes; 30 days to pay social insurance taxes; 16 days to pay sales and excise taxes; 12 days to pay property taxes; 14 days to pay corporate income taxes; 4 days for other taxes; and 1 day for estate and gift taxes. That's 120 working days for one individual to pay his or her share of the tax burden.

Another problem is fighting against the inertia brought about by government power. The higher our tax rates rise, the less power individuals feel they have

to change them. Democrats bank on this reaction, for it enables them to consolidate power at the expense of seemingly helpless citizens.

But we must not accept this false impulse, for there is much we can do to push back against our tax burden. Certainly we can support groups like the Tax Foundation that defend taxpayers in Washington. We can also vote. And when we do we should ask candidates what direction they would like to see Tax Freedom Day move on the calendar. Some of them have already given us an answer.

Doug Wilson is Chairman of Townhall.com and co-author of Getting America Right: The True Conservative Values Our Nation Needs Today.

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