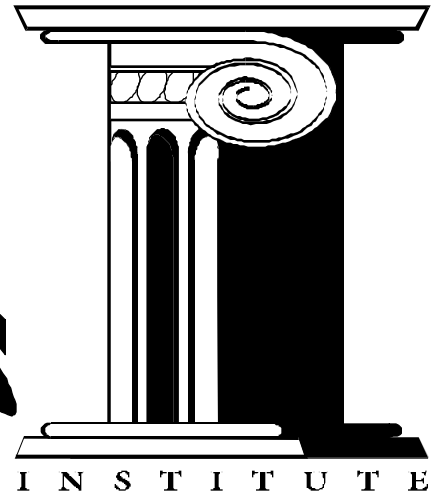


# LIMIT



*On Power and the Use of Power*

## Amendment 1 Has Proved Its Worth

by Bill Owens

*Ed. Note: In November 1992, Colorado voters helped ignite the second wave of the modern tax revolt by approving Amendment 1. This constitutional amendment requires majority voter approval for higher tax rates or new debt, and for any spending increases that exceed the rate of inflation plus state population or local growth. This editorial on Amendment 1 appeared in the December 19, 1996 Rocky Mountain News.*

Just four years ago Colorado was thought by some to be facing an imminent catastrophe. Critics of 1992's Amendment 1, an initiative to limit tax increases, were forecasting dire consequences should tax limits be approved.

Mayor Wellington Webb warned that putting limits on taxes would make it difficult for Denver to host the visit by the Pope, while investment banker Rita Kahn went further,

opining that its passage might increase the odds of a papal assassination. A county sheriff in uniform was featured in television ads, warning that criminals would most assuredly be released where they would rape, pillage, and plunder.

*A[n]...important benefit of limiting taxes is that government is forced to be more efficient at all levels.*

Governor Roy Romer chimed in with dour warnings of economic disaster while Moody's joined in the fray from Wall Street when it issued a "credit watch" for Colorado public debt, further clouding the picture for the voters.

But the voters — bless 'em — ignored this gloom and doom rhetoric and passed Amendment 1, putting the

Taxpayer Bill of Rights into our constitution.

So what is the result, four years later? Well, the Pope came and went — successfully and without any threat to his person. Crime has dropped, our economy is booming, while the credit ratings for most public debt have actually improved.

In fact, the economic growth which we have seen since 1992 has been so strong that the management of this growth has now become a concern of the public and elected officials.

Colorado's economy has improved more in the past four years than at any time since World War II; tax revenues have surged as the leveling off of taxes has led to new business investment; job growth has surpassed the national average every year since 1992 and

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unemployment has fallen 2% below that of the rest of the country.

What happened? It is really pretty simple, except to some of those who enjoy spending our taxes. When taxes are restrained, entrepreneurs, families, and individuals have more to spend on investment and consumption — activities which result in new tax revenues. Lower taxes create a stronger economy which results in — you guessed it — more tax revenue.

A study by Richard Vedder of Ohio University shows that the 10 states which raised taxes the most during the 1980s enjoyed less than half the economic growth when com-

pared to the 10 states which had the greatest tax reduction.

Vedder found the same results — the economies of low tax states growing faster than high tax states — also held true for the previous 60 years.

This relationship between taxes and economic growth was substantiated in a study done by the National Center for Policy Analysis, which compared state taxes with growth rates. The study found that “slow economic growth was linked to increases in taxes.”

A second important benefit of limiting taxes is that government is forced to be more efficient at all levels. Christopher Johns, manager of the Aquila Tax Free Fund of Colorado, remarked on this fact

when he was quoted in the *Rocky Mountain News* recently saying that Amendment 1 is forcing local governments to be fiscally responsible, thus raising bond ratings. “It hasn’t been the disaster that I thought it would be,” said Johns.

Johns is to be commended for his willingness to examine the real, as opposed to the expected, results of Amendment 1.

Now if only those others who so stridently opposed tax limits would do the same. ○

*Bill Owens is Treasurer of the State of Colorado. This article was reprinted with permission from Dollars & Sense, a publication of National Taxpayers Union.*

## Tax Cut Only An Accountant Could Love

by Daniel J. Mitchell

The debate over who will benefit the most from this year’s tax-cut bills — the rich or the middle class — misses the point. The real winners will be the accountants and tax attorneys who stand to profit handsomely if these bills are allowed to make an already convoluted tax code even more complex.

Every major element of the tax package now before congress comes saddled with eye-crossing restrictions, income phase-outs, and other complexities that contradict Washington’s professed goal of

making the tax code simpler.

In keeping with tradition, Congress also has sprinkled the tax package with provisions that benefit special interests,

*Each year, the current tax code generates enough paperwork to circle the earth 36 times...*

everything from relaxed capital-gains rules for owners of aging cows (I’m not kidding) to special tax breaks for fishermen

who donate muktuk (whale blubber) to Eskimo villages.

Of course, giving the country the first tax cut in 16 years is a good idea. But does Congress really need to add more tax forms to the 480 that already exist? Each year, the current tax code generates enough paperwork to circle earth 36 times and requires the death of 293,000 trees. And given the puny size of the tax cut — less than a penny of every dollar shipped to Washington — benefit to the economy will be meager while additional cost of complying

with tax laws (on top of the \$225 billion Americans already spend each year) will be significant.

The big-ticket item in the bills is tax relief for families with children. You'd think lawmakers would choose the simplest way to provide such relief, namely by increasing the personal exemption for dependents. But lawmakers instead created a special \$500 credit.

Had they stopped there, damage would have been minimal. Since the 1040 form already has 63 lines, adding one more would have made little difference and taxpayers would have been happy to spend a few extra minutes laboring over their tax forms in exchange for protecting more of their income from taxes.

Alas, this is where the class-warfare issue entered the picture. Critics complained that making the \$500 credit available to all taxpayers meant that some "rich" people would have been able to keep more of the money they earned. Rather than permit such an awful result, legislators decided to phase out the value of the tax credit for plutocrats (i.e. families making over \$100,000).

*Even the provisions in the tax package most likely to help the economy are needlessly cluttered.*

The fact that this will require a whole new tax worksheet

apparently caused members of Congress no concern. In the tax-preparation industry, of course, it caused elation.

The "kiddie credit" is a model of simplicity, however, compared with education provisions in the plan. Acquiescing to demands by the Clinton Administration, Congress is creating a new entitlement program for higher education. But the new tax credit for the first two years of post-secondary education is merely the tip of the iceberg.

Keeping with the spirit of class warfare, Congress decided to phase out the higher education tax credit for the rich. (In this case, you can be rich with an income as low as \$40,000.) This means yet another worksheet in the tax code and yet another line on the 1040 form — on top of the 17,000 pages of tax rules that already exist.

Apparently operating on the principle that if one complicated loophole is good, more are better, lawmakers launched into feeding frenzy. The Senate bill added an interest deduction for student loans and created a special itemized deduction for teachers' course work in education technology. The House did its part for red tape by adding a business deduction for donating computers to schools and a \$150 credit for tutoring.

Even the provisions in the tax package most likely to help the economy are needlessly cluttered. Individual Retirement Accounts will be ex-

panded, but taxpayers will have to navigate complex rules on

*Every special rule only adds to the 5.6 million words already governing the tax code.*

income limits, contribution limits and how they can use the money prior to retirement if they want to avoid a second layer of taxation. The capital gains section contains provisions that exclude tax relief for collectibles (such as art), create special preferences for small business venture capital, and increase the exemption for housing. Every special rule only adds to the 5.6 million words already governing the tax code.

The final tax bill probably will be better than nothing, but the benefits will be largely offset by added complexities sure to bring smiles to the folks at the tax preparer's. Those who believe in a simple and fair tax system — like the flat tax — can only hope lawmakers will do a better job next time. ◦

*Daniel J. Mitchell is McKenna senior fellow in political economy at Heritage Foundation, a Washington-based public policy research institute. Reprinted with permission from the author.*

# Initiative and Referendum Update

by Amy K. Frantz

Twenty-four states allow statewide initiative, permitting citizens to petition to place measures on their state's ballot. A few of those states have initiatives on the ballot for the 1997 elections, and in many others citizens are already working to put initiatives before the voters in 1998.

*...1998 will be a "banner year" for initiatives...*

**Washington** state's next statewide election will be held November 4, 1997. Eight measures met the state's July 3 deadline for filing petition signatures for initiatives. Appearing on November's ballot will be five initiatives relating to health plans, handgun safety, and employment non-discrimination; two proposed constitutional amendments; and a referendum relating to limits on property taxes.

While only a few states are holding statewide elections in 1997, Steve Gaddy of Gaddy/Reed says 1998 will be a "banner year" for initiatives, with many proposals on the ballots in states that allow initiative and referendum.

Oregon Taxpayers United is currently working to place at least four measures on the 1998 ballot in **Oregon**. Each of these constitutional amend-

ments is aimed at reducing the burden on Oregon's taxpayers.

The Efficiency in Government Act attempts to promote competition in the services now provided by Oregon's state and local governments, and allow Oregon's citizens to receive high quality services at the lowest possible price. This constitutional amendment requires governments to disclose annually the cost of the services they provide. Private companies may then submit a bid to provide the same or a similar service if the bid is at least 20 percent lower than the government's cost. The government can either accept the bid or may submit the bid to the voters in the next election. The government can refuse a bid only if it has a reasonable basis for believing the bidder is not capable of providing the service at the same level of quality at the price bid.

The Spending Limit Act of 1998<sup>1</sup> places a limit on the revenue and spending of Oregon's state and local governments. The level of revenue a government may receive is limited to the highest total in one of the two fiscal years before this amendment becomes effective, adjusted annually for inflation and changes in population. If revenue projections exceed the limit, the government must lower the tax rate to avoid the

surplus or refund the surplus to the taxpayers. The revenue limit can be temporarily increased by a two-thirds vote or permanently reduced by a majority of voters. The annual spending limit is determined by the revenue limit plus any unspent funds carried over from previous years.

Another Oregon ballot proposal would prohibit the use of public funds, including employee time and public property and equipment, for the collection of political funds. This would prevent public funds from being used to help collect the union dues of government workers if any of those funds are used for political purposes.

*If revenue projections exceed that limit, the government must lower the tax rate to avoid the surplus or refund the surplus to the taxpayers.*

Finally, Oregon has another level of government between the state and local governments, called Metro government. A ballot measure sponsored by Oregon Taxpayers United would eliminate this extra layer of bureaucracy, saving taxpayer dollars and returning many of Metro's duties to local governments,

which are closer and more accountable to the people.

Voters in **California** will consider several ballot initiatives in the June 2, 1998 election. Seven initiatives are on the ballot, with more than 20 others awaiting Attorney General certification of having met the qualifications or still collecting signatures for possible placement on the ballot. The proposals that have qualified for the June election include a limit on school district spending and a limit on Congressional terms.

**Arkansas** citizens are also working to put a tax reform initiative on the ballot. The proposed initiative abolishes Arkansas' property tax and the offices necessary to collect property taxes, replacing the property tax revenue with an increase in sales tax. The initiative also requires voter approval to increase state taxes and includes a sunset provision requiring certain taxes to be re-approved by the voters every two years.

Several states are also working to place a civil rights initiative (CRI) on upcoming ballots. California voters approved a civil rights initiative last year (Proposition 209) prohibiting the state and local governments, public universities and schools, and other government agencies from discriminating against or giving preferential treatment to any individual or group in public employment, public education, or public contracting on the

basis of race, sex, color, ethnicity, or national origin. In April, the American Civil Liberties Union and other civil rights activists won an injunction against Proposition 209 in the U.S. District Court of Northern California. Recently, a three-judge panel of the Ninth Circuit Court of Appeals reversed the earlier decision, questioning a system that allows one judge to block an initiative approved by over 4 million California citizens. Proposition 209 took effect on August 28, but further court challenges are likely. Other states are working with California's CRI supporters to try to avoid a potential court challenge if other states' civil rights initiatives are approved by voters.

*Several states are also working to place a civil rights initiative (CRI) on upcoming ballots.*

**Florida** is one of the states in which voters are likely to see a civil rights initiative on the ballot. Supporters of a Florida CRI have demonstrated that this is a taxpayer issue as well as a civil rights issue. A study by Florida Civil Rights Initiative (FCRI) founder John Barry found that the preferential contracts given under affirmative action laws cost Florida's taxpayers \$1 to \$2 billion annually.

For those readers with access to the Internet, a few of

the states that allow initiative and referendum provide updates of the initiatives that are on the ballot or are in the process of collecting petition signatures. Currently the states of Alaska, California, Florida, Oregon, and Washington provide this information, which can be accessed through the websites of the Secretaries of State offices. In addition, many sponsors of 1998 initiatives will likely be setting up websites to promote their ideas. If you would like the Internet addresses for these sites, please contact Public Interest Institute.

Finally, one state is working to join the 24 initiative states. Over 200 cities and local governments in **Texas** permit initiatives to be voted on by the local electorate, but the state of Texas does not allow statewide initiatives to be placed on the ballot. Texans for Initiative & Referendum is working to convince the Texas State Legislature to propose a constitutional amendment to allow statewide initiative. A recent poll found that around 30 percent of Texans support I&R, while nearly 50 percent don't have an opinion. Texans for I&R is raising funds and recruiting activists to increase support for statewide initiative and referendum in Texas. ○

<sup>1</sup> Oregon's Spending Limit Act of 1998 is very similar to Iowa's proposed Taxpayers' Rights Amendment.

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

# Economic Benefits of Tax Cuts

by Amy K. Frantz

The budget and tax bills recently enacted by Congress and the President generated much discussion of the impact on the economy of cutting taxes. A study conducted last year by Dean Stansel and Stephen Moore of Cato Institute demonstrates that the states can be “laboratories of democracy,” showing us that cutting taxes can lead to higher economic growth and balanced budgets on the state level.

In their study, *Tax Cuts and Balanced Budgets: Lessons From the States*, Stansel and Moore compared the economic and fiscal performance of ten states that raised taxes with ten states that cut taxes between 1990 and 1996. Their findings showed that the tax-cutting states have higher budget reserves, have higher bond ratings, and gained more new jobs than the tax-raising states. The annual income of a family of four grew \$1,600 more in the states that cut taxes than in states that increased taxes.

The study also found that Americans “voted with their feet in favor of tax-cutting states.” Population gains from 1990 to 1995 were more than three percentage points higher in states that cut taxes than in states that increased taxes.

The Cato Institute study highlights several states that have reduced taxes and increased economic growth. In

1992 Arizona reduced its top income tax rate from 8.7% to 5.6%. The state has gone from falling employment levels before the tax cuts to new jobs being created at three times the national average. Arizona ranks 14th in Money magazine's report; only 13 states have a lower tax burden.

In Michigan, Governor John Engler took office in 1991 facing a state budget deficit of over \$1 billion. Governor Engler cut taxes, reduced the workers on state payrolls, ended low-priority government programs, and privatized many government services. Michigan businesses have responded by creating 450,000 new jobs, driving the state's unemployment level to the lowest rate since the mid-1960s.

Connecticut was the 41st state to enact a personal income tax in 1991. In the four years following the adoption of the income tax, the state lost 125,000 jobs and fell into a recession that devastated Connecticut's insurance, defense, and banking industries. In 1994, the state elected a new governor, John Rowland, who helped to enact a \$200 million income tax cut in 1995. Tax cuts have helped the state recover from the recession of the early 1990s and have helped replace one-third of the lost jobs.

In his last year in office,

former Governor Michael Dukakis of Massachusetts supported tax increases in order to close a \$1 billion budget deficit. The following year, newly elected Governor William Weld was able to balance the budget by reducing spending, privatizing state-government services, and reducing the government payroll. In 1991 Governor Weld won an income tax reduction, the first of eight tax cuts adopted during his first term as Governor. In addition, the Dukakis tax increases were repealed. Since 1991 the state has regained the 150,000 jobs lost in the recession of 1990-1991, and the state budget is running a surplus.

The study by Cato Institute also points out that three states with booming economies — Texas, Florida, and Tennessee — have no state personal income tax on wages and salaries. It appears that the best incentive for economic growth is no state income taxes at all.

If you would like to obtain a copy of this study, you may contact Cato Institute at 202-842-0200, visit Cato's website on the Internet at <http://www.cato.org>, or call Public Interest Institute. ○

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

# A Tax Deduction For Payroll Taxes

by Gary and Aldona Robbins

Payroll taxes are not small potatoes: today, over 90 percent of all workers pay more in payroll taxes than in income taxes.

Under current law, payroll taxes paid by the employee are subject to the income tax while those attributed to the employer are not. Payroll taxes withheld from workers' paychecks are counted as taxable wages.

*[By] making the payroll tax deductible, income taxes would be calculated on the basis of working families' real net incomes.*

-- Kemp Commission Report

For example, if a worker earns \$30,000 in wages, the employer pays a payroll tax of \$2,295, and another \$2,295 is withheld from the employee's paychecks. The \$2,295 paid by the employer does not appear on the employee's W-2 form and is not included as part of taxable wages. However, because the \$2,295 withheld from the worker's paychecks counts as part of the \$30,000 in taxable wages, the worker also must pay income taxes on his or her share of payroll taxes. **Many consider the fact that workers must pay income taxes on their payroll taxes a tax on a tax.**

A proposal by Senator John Ashcroft (R-MO) would elimi-

nate this double taxation by allowing workers an income tax deduction for the payroll taxes they pay. Specifically, workers would take an "above-the-line" deduction for their share of payroll taxes that finance Social Security. Above-the-line means that the deduction would be available to taxpayers whether they itemize or take the standard deduction.

After five years, on average, taxpayers in the middle of the income distribution would experience roughly a 1.5 percent increase in after-tax income from the payroll tax deduction. Those in the top fifth would see their after-tax income increase by 1.7 percent. Taxpayers in the bottom fifth would experience the largest increase in after-tax income, 3.4 percent, because they pay

little or no income tax and, therefore, get to keep more of their gains from growth.

Payroll taxes are for most Americans more burdensome than income taxes. Allowing workers to deduct the payroll taxes that they pay directly from their wages would offer some relief, particularly for those with lower and middle incomes. A payroll tax deduction also would provide a modest boost to the economy, and, unlike the child or tuition tax credits, move in the same direction as broader-based tax reform. ○

*Gary and Aldona Robbins are Senior Research Fellows with Institute for Policy Innovation. Reprinted with permission from IPI INSIGHTS, a bimonthly publication of Institute for Policy Innovation.*

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## U.S. National Debt Clock

by Amy K. Frantz

The outstanding public debt as of September 3, 1997 at 2:06 p.m. CDT is \$5,386,484,048,258.09. Yes, that is over five trillion dollars! Your share of the debt is \$20,099.13, the amount of the debt divided by the population of the United States.

This information can be found on the Internet at the U.S. National Debt Clock website. The figure is continually updated to show the total national debt and each citizen's share of the debt.

The clock also shows the amount the debt increases, on average, per day. The current

average increase is \$609 million per day. That means government spending is adding \$422,000 to the national debt *per minute*. Those are your tax dollars!

This website is located at [http://www.brillig.com/debt\\_clock](http://www.brillig.com/debt_clock). The U.S. National Debt Clock also includes links to other sites that are concerned with the national debt.

If you have Internet access, check out this website, or stop by Public Interest Institute for a national debt update! ○

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