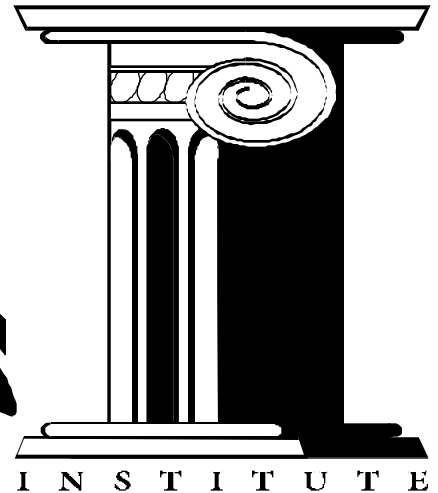


# LIMITS



*On Power and the Use of Power*

## Scrap the Income Tax Code

by Amy K. Frantz

Public Interest Institute staff attended Scrap the Code: National Tax Reform Tour in Des Moines in July. Sponsored by Citizens for a Sound Economy, the tour features a debate between U.S. House Majority Leader Dick Armey (R-TX) and Congressman Billy Tauzin (R-LA) on how to reform the federal tax system.

Representative Armey first shared his view of why the

current income tax code should be replaced. The only legitimate purpose of a tax code, said Armey, is to raise revenue. Our current tax code has been used for two other purposes: income redistribution and social engineering.

Armey believes the federal tax code is beyond repair, and has pledged to see a new, fair tax code in place before he retires from Congress. Armey

said Vice President Gore recently published a list of 200 ways to fix the tax code, but Armey replied that if your auto mechanic gave you a list of 200 ways to fix your car, you would trade in the car and get a new mechanic.

Representative Tauzin believes one of the worst things about the current tax code is that it requires us to have the Internal Revenue Service (IRS). In disputes with the IRS, Americans often are treated as guilty until proved innocent, which is wrong in a free society.

Tauzin agrees that the current tax code cannot be fixed. He reported 4,900 changes have been made in the tax code since President Reagan left office. Yet, Tauzin said, the tax code continues to punish Americans for doing the right things, such as earning income, saving, investing,

Representative Billy Tauzin discusses the National Retail Sales Tax at Scrap the Code: National Tax Reform Tour in Des Moines.

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## LIMITS

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Dr. Don Racheter

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# The Future of the Initiative and Referendum Process

by Paul M. Weyrich

A century ago, the people of South Dakota were able to get their Legislature to enact a statute giving them the right to vote directly on laws. That was a revolutionary move back then — the people actually getting to vote up or down on the laws they would have to live with. The idea spread, especially in the upper Midwest, fueled by the success of the Progressive Movement.

The Progressives, such as Governor Robert LaFollette of Wisconsin, argued that Legislatures, rather than being instruments of the people, could often be bought and paid for by special interests. Thus, allowing the people to circumvent the Legislature was an appropriate part of the system of checks and balances. It would prevent a Legislature from becoming corrupted because the people could always override the Legislature.

The system has worked. Those states that have the initiative and referendum process have tended to have fewer scandals and more honest state government than those states without that process. Slightly less than half the states in the country have the process, but the movement to enact it in more of the states is growing. In many states the initiative and referendum process has come

within a hair of being enacted. Its defeat was usually at the hands of the very special interests that the LaFollette Progressives worried about. They don't want the people to speak.

The Supreme Court, in its fall term, will consider a case that has national implications as to the future of the initiative and referendum process. In recent years, State Legislatures have struck back, attempting to make it more and more difficult for the people to override their Legislatures. Colorado is a good case in point. When he was a State Senator, Terry Considine tried to get the Legislature to enact term limits. He wasn't just defeated by his colleagues. Although most of them were not religious, they would have made good Mennonites. Considine was shunned for his efforts. Considine went out and organized a group called Coloradans Back in Charge which promoted the idea of term limits in a state-wide referendum.

State Legislators may not have liked the idea, but the voters backed it overwhelmingly. The issue carried by more than two-thirds of the vote. The demographics of the pro-term limits vote crossed every line. People of all parties, races, creeds, and income

groups voted for term limits for the Colorado Legislature.

Three years after that vote, the Legislature struck back. Not only did their statute provide that those who circulated the petitions to get an issue on the ballot had to be residents of the state and registered voters, but petition circulators were required to wear a badge declaring whether they were a volunteer or someone who was paid to circulate the petition. If they were paid, they had to have, in addition to the words "PAID CIRCULATOR," their name and address on their badge.

All of that was too much for the Tenth Circuit Court of Appeals, which ruled that this imposition of regulations by the legislature violated the Constitution. That ruling is now before the Supreme Court and what the Court does with it will determine the fate of not just the statute in Colorado, but similar attempts by virtually all other State Legislatures to restrict the rights of the people to enact their own laws.

Clearly Legislators feel threatened by the people. After all, it is the people who started a tax revolt in California after the Legislature didn't get it. It is the people who overrode the Legislature in attempting to cut off welfare for illegal aliens. It is the people who told the Legislature just a few weeks ago that bilingual education had to go. The Legislature had insisted that it had to be continued.

Interestingly, the restrictions which Colorado and most other states have imposed on the people in restricting their right to get a measure on the ballot are not applied to lobbyists and other special interests, who often control what the Legislature does.

When states make it more and more difficult to get items on the ballot, by raising the number of valid signatures necessary to qualify, or restricting who can circulate petitions and under what circumstances they can be circulated, they are attempting to restrict the right of the people to decide important issues.

*...allowing the people to circumvent the Legislature [is] an appropriate part of the system of checks and balances.*

The Initiative and Referendum Institute has filed an amicus brief asking the Supreme Court to uphold the ruling by the Tenth Circuit. In its brief, the Institute outlines the lengths to which different states have gone to restrict the right of the people. Wyoming, for example, requires that an outright majority of the state's registered voters must vote in the affirmative to enact a statute, not just a majority of those who turn out to vote. Those who claim the states can enact these restrictions say that

since states don't have to grant the right for the initiative and referendum process in the first place, it is logical that states can restrict how such elections are regulated.

The Initiative and Referendum Institute, on whose advisory board I serve, contends that once a state has enacted such a statute, it must conduct the process in a way that conforms with the United States Constitution. The Tenth Circuit agrees with that view. Which way the Supreme Court rules in this case will determine whether the people in the various states will still be able to express their will, especially when Legislatures refuse to hear what the people are saying.

This will be a landmark decision. The result may not fall precisely along ideological lines.

The division on the court will be between those Justices who want to uphold the right of the people to be heard and those who think it is perfectly permissible to make it next to impossible for the voters to have a say in how their state governments are run. It will be most interesting to see if the majority of the Supreme Court is on the side of the people.

*Mr. Weyrich's commentary appeared in Free Congress Foundation's Notable News Now, an Internet e-mail newsletter. Reprinted with permission from Free Congress Foundation.*

# Proposition 13's Legacy

by California Assemblyman Bill Leonard

Twenty years ago, California voters overwhelmingly approved Proposition 13. Those of us who supported Proposition 13's intent to reduce and limit cities' and counties' ability to tax property still do so today. Why? For two very different but equally important reasons. The first is the obvious effect of Proposition 13 on California's overall tax and fiscal structure. The second is the less obvious, but equally important, effect of Proposition 13 on local, state, and national politics.

At the risk of stating the obvious, taxes are the single greatest source of funding for governments. While it is true that governments collect fees for all kinds of services, they are a small fraction of revenues to government. Property taxes have historically served as the primary source of revenue for local governments. The property tax was based upon the assessed value of the property and was not limited by law.

Proposition 13 simply reduced property taxes and limited rate increases to no more than 2% each year.

Critics complain that Proposition 13 has left local governments starved for funds. This charge is simply false. With an exception for years of economic recession, tax revenues for local governments in constant dollars have increased

each year since Proposition 13 passed. To make sense of Proposition 13 today, we must recall what California was like before the initiative.

Before Proposition 13, local government spending was spiraling out of control in California. Advocates for limited government had tried several times to qualify an initiative to limit the growth and expense of local government by reducing property taxes. Not until California's

*Before Proposition 13, local government spending was spiraling out of control in California.*

housing prices became inflationary did popular support for limiting property taxes fully mature. Because home values were increasing as much as 20% each year, property taxes were escalating at such a rate that seniors and single-income families were often forced to sell homes on which they could no longer pay taxes. It was in this climate that Proposition 13, led by Howard Jarvis, qualified for the ballot.

Defenders of big government were stunned that common citizens could unite in common cause to restrain the

taxing power of local governments. In response, the overwhelmingly Democratic Legislature placed a competing initiative, Proposition 8, on the ballot to mildly reform and limit the property tax.

Throughout the campaign, local government officials, public employee unions, and liberal special interest groups predicted if Proposition 13 passed, then massive reductions in police, fire, library, and park services would result.

Despite the dire warnings from the advocates of unlimited government, Proposition 13 passed with a ground swell of voter support while Proposition 8, the initiative promoted by the special interests, failed miserably. Its resounding victory at the polls did not surprise those of us who supported Proposition 13. It surprised us even less when police and fire departments continued to serve and libraries and parks remained open. True, since Proposition 13 passed, local governments have imposed a broad range of fees and assessments upon citizens to finance local services, and the state now provides a greater amount of funding for local schools. Yet Proposition 13 was always about much more than taxes and local government finance.

Looking back, we can say without equivocation that Proposition 13 was borne of

voter and taxpayer frustration with government. This is Proposition 13's lasting legacy in California. While other propositions have been more socially contentious or divisive, no proposition matches Proposition 13 in its lasting impact upon politics in California. Today, voters and taxpayers frustrated with government do not hesitate to take matters into their own hands by qualifying an initiative to address their concerns.

The effects of Proposition 13 were felt far beyond California as well. It gave birth to a nationwide tax revolt, which empowered citizens not only to complain about their taxes, but to do something about them. It redefined the relationship between taxpayers and government. More important, it animated the campaign of a former California Governor running for President and other conservatives pursuing public offices. Ronald Reagan would not have been President nor would the national ascendancy of conservative politics have been possible without Proposition 13. Californians and America are being well served by the success of those volunteers and voters who passed Proposition 13.

*Assemblyman Leonard's article appeared in Taxing Times, the quarterly newsletter of the Howard Jarvis Taxpayers Association. Reprinted with permission from the author.*

# Initiative and Referendum Update

by Amy K. Frantz

## ARIZONA

A proposed statute on the ballot in November permits adding a notation next to a federal candidate's name on the ballot if the candidate signs a pledge to support and vote for the elimination of the Internal Revenue Service (IRS). Other issues in Arizona include a proposed Constitutional Amendment to make it more difficult for the State Legislature to amend citizen-approved initiative and referendum provisions.

## ARKANSAS

Voters in Arkansas will consider a proposed Constitutional Amendment to abolish the property tax, increase the state sales tax, and require voter approval for all new taxes.

## CALIFORNIA

As California has proved, the battle is not over once an initiative has been approved by the voters. At least two recently-approved measures are continuing the fight for state-wide implementation. A few counties in California, mostly in the San Francisco area, are refusing to implement Proposition 209, prohibiting governments from basing hiring, contracting, or admissions decisions on race, sex, color,

ethnicity, or national origin. California voters approved Prop. 209 in 1996. Opponents of Proposition 227, approved in June to reform bilingual education, have filed a lawsuit to prevent the state from carrying out the wishes of the majority of the voters.

## MICHIGAN

A proposed statute to allow physician-assisted suicide will be on the November ballot in Michigan.

## MONTANA

Montana's voters will see a proposed Constitutional Amendment on the ballot to require voter approval of all new taxes and fees.

## NEBRASKA

One measure on the November ballot is a Constitutional Amendment to limit state and local governments' receipts to the prior year's actual revenue, plus inflation and population growth, plus any amounts spent for unfunded federal mandates. Excess revenue would be returned to the taxpayers. The amendment prohibits the state from reducing the share of its budget committed to aid local governments.

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## Scrap the Income Tax Code

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trying to build a retirement income, leaving your estate to your children, and buying American-made products rather than imports.

While both gentlemen agree that the current income tax code should be scrapped, they disagree on what should replace it.

Majority Leader Arme y has introduced legislation to adopt a flat tax, while Representative Tauzin advocates a national retail sales tax to replace the federal income tax. Each explained the advantages of his tax proposal before the debate was opened to questions from the audience.

The Arme y Flat Tax would scrap the current tax code and replace it with a flat-rate tax. Under Arme y's plan, every dollar of income in the economy is taxed only one time. Individuals pay 17 percent of all wages, salaries, and pensions after subtracting a personal allowance and a deduction for dependents. The flat tax does not affect the Social Security and Medicare payroll taxes. Social Security benefits would not be taxed. Businesses would deduct expenses from receipts, and pay a 17 percent tax on the net earnings.

Arme y says his flat tax plan is more fair than our current income tax because everyone is treated the same. It would also

eliminate double taxation by repealing the tax on capital gains, estates, dividends, interest, and social security benefits.

The flat tax would be much easier to calculate than our current income tax system. The flat tax would eliminate 480 IRS forms and 280 IRS documents. Most families should be able to calculate their income taxes in about five minutes, sending in the postcard-sized form with their tax payment, Arme y said.

The flat tax would take away the subjectivity of the tax code. There is only the personal exemption and deduction for dependents; all the other deductions of our current tax code would be eliminated. This simplicity in the tax code should reduce the abuse the IRS currently inflicts on taxpayers.

The current tax code and the IRS often treat taxpayers as guilty until they prove themselves innocent. The flat tax system would treat taxpayers fairly and with respect. Arme y hopes that with the flat tax, the people would pay their taxes voluntarily, as an exercise in civic responsibility, rather than being bullied into paying taxes in fear of the power of the IRS. We shouldn't resent government, but should be willing to support a decent and responsible government. Arme y believes the flat tax would help that to happen.

Representative Tauzin and Representative Dan Schaefer (R-CO) have introduced Na-

### Taxes Paid Under the Flat Tax

#### Single

Earnings	Taxable Earnings	Tax Paid
20,000	8,400	1,428
40,000	28,400	4,828
60,000	48,400	8,228
80,000	68,400	11,628
100,000	88,400	15,028

#### Married, No Children

Earnings	Taxable Earnings	Tax Paid
20,000	0	0
40,000	16,800	2,856
60,000	36,800	6,256
80,000	56,800	9,656
100,000	76,800	13,056

#### Single, Head of Household, Two Children

Earnings	Taxable Earnings	Tax Paid
20,000	0	0
40,000	14,550	2,474
60,000	34,550	5,874
80,000	54,500	9,274
100,000	74,550	12,674

#### Married, Two Children

Earnings	Taxable Earnings	Tax Paid
20,000	0	0
40,000	6,200	1,054
60,000	26,200	4,454
80,000	46,200	7,854
100,000	66,200	11,254

Under the Arme y Flat Tax plan, earnings would be wages, salaries, and pensions. Taxable earnings would be earnings minus the personal allowance of \$11,600 (\$23,200 for couples) and a deduction of \$5,300 per dependent. Taxes due under the flat tax would be 17% of taxable earnings.

tional Retail Sales Tax legislation. The national retail sales tax would impose a 15 percent tax on the gross receipts from the sale of any good or service.

Tauzin's plan includes a rebate against each worker's Social Security payroll taxes, based on the number of family members. States would have the option of collecting the national sales tax in exchange for a small portion to offset their collection costs. Most states currently collect state sales taxes, and could easily collect a national sales tax in addition to the state tax.

The national retail sales tax would treat housing in the same manner as it is treated today under the income tax. The income tax provides a deduction for home mortgage interest, but the mortgage principal is paid with after-tax dollars, in essence a tax on the principal payment. Under the national retail sales tax, a home buyer would pay the sales tax on the principal portion of a mortgage in equal installments over the life of a thirty-year mortgage, but interest payments would not be taxed. Under both tax systems, the principal is taxed and the interest payments are not.

Tauzin said one of the best things about his plan is that the IRS would be completely abolished, and individuals would no longer have to file any federal tax return. Tauzin's plan would repeal the personal income tax, corporate income tax, estate tax, gift tax, capital

### Taxes Paid Under the National Retail Sales Tax

Single

Income	Savings	NRST	Rebate	Tax Paid
20,000	780	2,883	1,392	1,491
40,000	1,560	5,766	1,392	4,374
60,000	2,340	8,649	1,392	7,257
80,000	3,120	11,532	1,392	10,140
100,000	3,900	14,415	1,392	13,023

Single, Head of Household, Two Children

Income	Savings	NRST	Rebate	Tax Paid
20,000	780	2,883	2,352	531
40,000	1,560	5,766	2,352	3,414
60,000	2,340	8,649	2,352	6,297
80,000	3,120	11,532	2,352	9,180
100,000	3,900	14,415	2,352	12,063

Married, Two Children

Income	Savings	NRST	Rebate	Tax Paid
20,000	780	2,883	2,832	51
40,000	1,560	5,766	2,832	2,934
60,000	2,340	8,649	2,832	5,817
80,000	3,120	11,532	2,832	8,700
100,000	3,900	14,415	2,832	11,583

National Retail Sales Tax (NRST) is 15% of adjusted gross income minus the amount of income saved (in this example, 3.9% of income or the national savings rate). NRST minus the rebate provided under the Schaefer-Tauzin sales tax plan equals the actual amount of tax paid. The rebate would be a reduction of the worker's Social Security payroll tax.

gains tax, and social security benefits tax.

With the national retail sales tax, Tauzin said, you would decide how much tax to pay by deciding how much of your income to spend and how much to save. You decide, not the government.

The national retail sales tax would also bring the amount of taxes Americans pay out into

the open. Consumers already pay all taxes, said Tauzin. Businesses merely pass along the business taxes and compliance costs to the consumer in the form of higher prices.

Tauzin concluded that the national retail sales tax is ultimately about liberty and freedom. Do we make choices in our lives, or does Washing-

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ton D.C.? Tauzin issued a challenge to elect a Congress, President, and Vice President who are committed to changing the tax system by the turn of the century. Only then will America truly be a people in

charge of our own destiny rather than a government in charge of its people.

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

### **Initiative and Referendum Update**

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#### **OREGON**

Oregon is the only state that will vote on a “paycheck protection” Constitutional Amendment this fall. Similar measures in Colorado and Nevada did not qualify for the ballot in those states. The Oregon initiative, Measure 59, prohibits the use of public funds to collect union dues from government employees to be used for political purposes. The sponsor of Measure 59, Bill Sizemore, is a candidate for Governor. Ten other citizen-initiated measures will appear on the ballot in Oregon.

**U.S. House Majority Leader Dick Armeey promotes the Armeey Flat Tax at Scrap the Code: National Tax Reform Tour in Des Moines.**