IPI Impact

A Publication of the Institute for Policy Innovation August 1999

250 South Stemmons, Suite 215 • Lewisville, Texas 75067 • (972) 874-5139

Dear Friend of IPI,

It's been a busy few months at the Institute for Policy Innovation (IPI). This year we have substantially increased our "Idea Marketing" efforts, and have taken it to Capitol Hill to a greater degree than ever before. The results have been more than worth it.

Our ideas and our policy analysis have been very influential this year. In particular, our work on tax policy over the last eighteen months had a substantial role in shaping the tax cut passed by Congress and now awaiting the President's action. A review of our tax work in the last few months shows that *every tax policy target we took on made its way into the tax cut bill*. In particular, our work on estate taxes, alternative minimum taxes, and capital gains taxes largely shaped the House bill, and is preserved in the conference bill.

I hear the same things you hear about the American people not caring about tax cuts, and I wonder as you do about the accuracy of such polls. I know one thing: Leadership is about seeing what needs to be done and building a consensus for it, not just responding to the immediate whims of a polled section of the population. We know, do we not, that in the next economic downturn that same polled section of the population will be demanding that politicians "do something" to create more jobs and economic opportunity? We know, do we not, that if we don't return the surplus to taxpayers, Big Government will simply gobble it up, regardless of which party is in control of Congress? So the task is clear, and the leaders among us know our jobs.

As for IPI, we are doing our job by writing op/eds, appearing on radio and TV news shows, putting out press releases, holding press conferences, conducting briefings for Capitol Hill staff, putting out an attractive, full-color policy newsletter, and conducting substantial, primary research. That's our part in the battle for lower taxes, fewer regulations, and a smaller, less-intrusive government. A small sampling of the results of this work is contained in this publication.

We're taking on a new challenge in that battle. Today, the U.S. economy is benefiting enormously from the high-tech sector of our economy. This sector is doing so well, in part, because it has sprung up during a time of capital availability, and because it has managed to outrun the regulators. We aim to explain this to the American people, so that this key industry can be shielded from regulators and encouraged to continue to blossom. Who knows, maybe we can apply some of those lessons to other sectors of the economy?

We encourage you to join us in this important work.

Sincerely,

Tom

Tom Giovanetti

President

JOURNAL OF COMMERCE
NEW YORK, NY
WEDNESDAY 21,000
JAN 27 1999
BURRELLE'S

'Sludge Magic' at the EPA

BY DAVID L. LEWIS

According to scientists working for the U.S. Environmental Protection Agency's Office of Research & Development, the sludge rule on land application of municipal wastes (40 CFR Part 503) promulgated in 1993 may be the most scientifically unsound action ever taken by the agency.

Rather than being protective, the rule actually threatens public health and the environment.

In brief, the EPA's sludge rule permits land application of dried urban sewage — called "sludge" — in lieu of dumping it in the ocean, which is now prohibited.

About half of the sludge from municipal waste-treatment facilities across the United States, containing human sewage, agricultural runoff and industrial wastes, is now being used to fertilize farmland, national forests and other areas.

This amount is rapidly increasing as states and waste-disposal companies pressure local communities to use sewage sludge and assure the public that the EPA has determined it to be virtually risk-free.

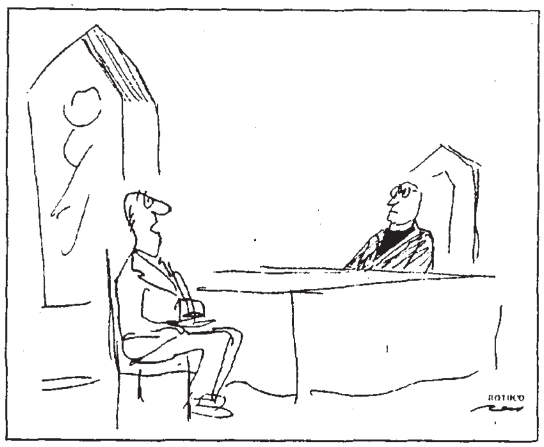
In 1972, Congress amended the Clean Water Act directing EPA to develop regulations for disposing of sewage sludge. A U.S. District Court in Eugene, Oregon, followed suit in 1990, issuing a consent decree requiring the agency to promulgate the regulations within two years.

Remarkably, the agency's position on this issue reveals a sort of environmental doublespeak: Traces of pesticides, heavy metals and industrial wastes that environmental officials have long argued cause cancer and other major public health problems are now said to be completely safe for disposal on farmlands, forests, even home lawns and gardens.

The science behind the EPA's sludge rule, according to some of the agency's own scientists who reviewed it, was so bad it was popularly deemed "sludge magic."

Because sludge contains human pathogens and trace quantities of mercury, lead and other toxic metals, applying it to areas used for growing food crops and selling bags of it to home gardeners is a source of concern. Ecologists also have reservations about the effects of nutrients, toxic metals and other pollutants leaching from sludge into surface and ground water.

Indeed, government researchers in Canada collaborating with scientists at the University of Quebec last year published a study showing that forests treated with sewage sludge released toxic metals in amounts that exceeded water-quality criteria for protecting aquatic organisms.



"Does God 'beep'? I keep getting a 'beep beep.'"

Disease-causing microorganisms that can lie dormant or proliferate in soil treated with sludge are even more disconcerting to microbiologists. Samples taken this year from land in north Kansas City contained 650,000 salmonella and E. coli bacteria per 100 grams of soil — many thousands of times higher that what is considered safe by public health officials. The source, apparently, was sludge applied in the area before 1992.

The appearance of new strains of staphylococcus, tuberculosis, E. coli and other bacteria — some of which are completely resistant to modern antibiotics — has led to a resurgence of life-threatening infections that were once easily treated.

Spreading sludge, which contains some superbugs flushed down hospital sewer lines, on farms and home gardens throughout the United States has scientists both inside and outside of the EPA understandably concerned.

With increasing numbers of children dying from E. coli strain O157, traced to an assortment of products, including strawberries and hamburger meat, people are becoming increasingly concerned over agricultural products imported from less developed areas of the world where human waste serves as cheap fertilizer.

Meanwhile, content that syringes and rubber gloves no longer litter our beaches, few policy-makers and reporters seem even slightly curious about how our government solved the problem of ocean dumping of municipal wastes.

Still, it is what the EPA's sludge rule says about many of the agency's other regulations that seems most enigmatic. When asked why pesticides, organic solvents, toxic metals and other pollutants in sludge pose virtually no risk to public health or the environment, agency officials point to a lack of documented cases of anyone becoming sick from exposure to sludge.

Critics argue that the same can be said of traces of pesticides and other industrial chemicals in drinking water. EPA's position on sludge, they say, shows that agency regulations are based on political expediency, not sound science.

David L. Lewis, who has a doctorate in microbial ecology, works as a research microbiologist for the U.S. EPA Ecosystems Research Division, and is an adjunct scientist at the University of Georgia. The views here are his own, not official policies of the EPA. This article represents part of a joint study by the Lexington Institute and the Institute for Policy Innovation, "Out of Control: Ten Case Studies in Regulatory Abuse."

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PHOENIX, AZ
14-TIMES/YEAR 25,000
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NOT • NECESSARILY • NEWS

Overheard ...

at the Association for Local Telecommunications Services (ALTS) Convention in Las Vegas:

"I do not want to minimize the threat that large, established companies with market power present. When you are still living in the Jurassic Period a dinosaur can be a scary thing, and as you are being eaten by Tyrannosaurus Rex, there is no solace in the knowledge that one day he may be extinct."

—Michael K. Powell, Commissioner, Federal Communications Commission

On Tap for March

- IP Telephony Services
- Partitioning the Switch
- Wholesale Internet Programs

Universal Service Makes Worst Regulations List

Institute for Policy Innovation (IPI) and the Lexington Institute have identified 10 of the worst regulations in America that should be repealed or corrected at the new Congress' earliest opportunity. Making the dubious list is the Federal Communications Commission's (FCC's) Universal Service Program (USP). USP was designed in the 1930s to guarantee the extension of telephone service to remote rural areas. But today, say list compilers, the program has run its course, and new wireless technology makes the program obsolete.

"Instead of being phased out when it is no longer needed, the USP has become platform for new federal taxes and an excuse for government intrusion into the Internet," list compilers say. "Most notably, the USP is the vehicle through which the 'e-rate' or 'Gore tax' slipped into American's phone bills, and it is through the USP that the FCC could begin to tax Internet telephony." For more information, visit IPI's website at www.ipi.org.

Numbers Game

10.4 = The number of dollars in billions that comprised transactions over the Internet in 1997.

31.3 = The number of dollars in billions that are expected to comprise transactions over the Internet in 1998.

204 = The number of dollars in billions that are expected to comprise transactions over the Internet in 2001.

Source: "Internet and Intranet: Markets, Opportunities and Trends," Zona Research Corp., Redwood City, Calif.

"Retiring the Social Security Earnings Test" is released on Capitol Hill on June 29.
In attendance (L-R), David Keene, ACU; Karen Kerrigan, Small Business Survival Committee; Dorcas Hardy, United Seniors Association, former commissioner of Social Security; Sen. Spencer Abraham; Kerri Houston, IPI; Sen. John McCain; Aldona Robbins, IPI; Peter Ferrara, Americans for Tax Reform; Lawrence Hunter, Empower America; Jim Martin, 60 Plus Association.
(Not pictured - Rep. Pete Sessions, Gary Robbins, IPI)

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NEW YORK, NY
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Other Comments

Crash Course

AIR TRAVELERS are filing complaints against carriers at the highest rate since 1991. The number of passenger complaints per 100,000 passenger boardings was 26% higher in 1998 than the year before. Only two carriers saw a drop in complaints: Alaska Airlines and Southwest Airlines.

On a recent United Airlines trip in coach, [Colin Case] sat with his legs out in the aisle. Fellow passengers were stumbling over his feet. "When you can't put your knees together, you know something is wrong," he says.
–THOMAS GOETZ, *Wall Street Journal*

Kingcraft

KING HUSSEIN had a remarkable combination of sometimes contradictory qualities. Dubbed by some critics the Chameleon King, he could be all things to all men, but usually not at the same time. His charm was both real and contrived—as a wonderful send-up running in Amman theatres in the mid-1990s perfectly captured, above all by mimicking the tactical squint he employed. King Hussein, typically, watched and enjoyed that show.

Himself a rock of continuity, he used governments like Kleenex, getting through 56 in 46 years. Yet rotation of office was part of his art, what biographer Roland Dallas calls "strategic generosity": Even those who hatched plots against him could expect a decent embassy if they served their time quietly on the substitutes' bench.

His long, turbulent reign was by any standards a *tour de force* which his son Abdullah will be hoping not to have even to try to emulate.
–ROGER MATTHEWS and
DAVID GARDNER, *Financial Times*

The least pain in our little finger gives us more concern and uneasiness than the destruction of millions of our fellow-beings.
–WILLIAM HAZLITT (1778-1830)

Food for Thought

NONCOOKS think it's silly to invest two hours' work in two minutes' enjoyment; but if cooking is evanescent, well, so is the ballet.
–JULIA CHILD

Vegetable Power

WHAT WOULD the Know Your Customer rule define as a "suspicious" [bank] transaction? Any old thing. Under the regulation, each bank would "determine" the "normal and expected transactions" for each customer.

And who will make the judgment as to your likely criminality? Why, whomever your bank appoints. The next time you are in the midst of an infuriating argument over a mistake in your checking account with an assistant manager who seems to have the I.Q. of an eggplant, comfort yourself with the knowledge that this very eggplant may well be responsible for judging whether your recent dips into your savings account merit federal attention.
–MICHAEL KELLY,
The Plain Dealer (Cleveland)

Yanking Our Chains

THE PRESIDENT began 1998 claiming that he would reserve the entire budget surplus—if a suplus occurred— for "saving Social Security." He didn't.

The President and Congress spent about $20 billion above and beyond the spending caps. They also spent about $9 billion on items "forward-funded" into FY2000. Add in the true cost of the off-budget IMF funding ($5 billion) and you get approximately $34 billion, or half of the surplus.

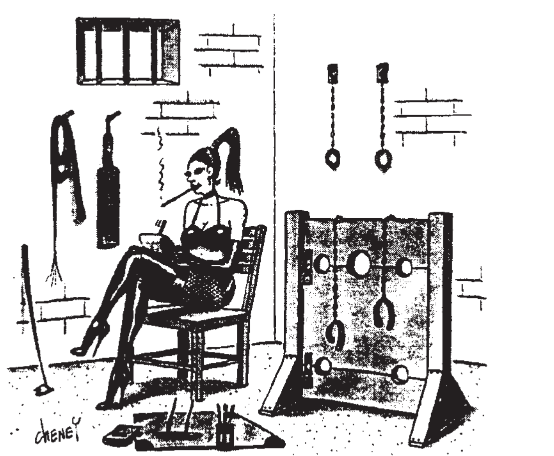
In 1999, the surplus is getting bigger and the tax burden is even higher. The President is again talking about reserving the surplus to save Social Security—except that now the surpluses are getting so big that he needs to save both Social Security *and* Medicare in order to keep Republican tax cuts off the table.
–Institute for Policy Innovation

Up to No Good

FOR 50 YEARS we have used taxes to steer behavior. Politicians often used the argument that they were promoting social good through the tax code as window dressing for their real aim: getting at the revenue. None of us likes the result. We are responsible for our own fate; let government take what we choose to give it and then retreat.
–AMITY SHLAES, *The Greedy Hand*

Not Too Sweet

A MAN who'd eaten a lot of sugary snack food fell out of a tree and sued the snack food company for $100 million in damages.
–Citizens Against Lawsuit Abuse
(Los Angeles)



"Dear Mom and Dad: Just a quick note to thank you for the lovely desk set."

DALLAS BUSINESS JOURNAL
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COMMENTARY

Front Lines

Balanced budget is cut above the bottom line

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Lawrence A. Hunter

Last year was supposed to be the year when surging revenue promised to balance the budget four years ahead of schedule and fiscal good times would finally put money, in the form of tax cuts, back into the pockets of ordinary Americans.

The 1998 budget was balanced (and ended up with a $70 billion surplus when Social Security was added in), but there was also bad news.

Government's share of the economic pie hit a peacetime high of 20.5%. Worse yet, we can expect more of the same in 1999.

The Institute for Policy Innovation's review of the 1998 budget year shows that more than $20 billion of the projected budget surplus for fiscal year 1999 alone will be wasted on a bewildering array of old-style pork-barrel and emergency spending.

What happened? The answer lies in sharp but dishonest strategizing by the Clinton administration, and the unwillingness of Congress to seize the high ground of coupling meaningful tax cuts with true Social Security reform.

Prior to last year's surplus, the federal government had balanced its books only twice since Eisenhower — most recently in 1969. Not surprisingly, most Americans believed they would never see the federal government register a budget surplus in their lifetimes. In fact, the projected deficits vanished so swiftly that many taxpayers still doubt the validity of official statistics.

Actually, the American people should doubt those in Congress and the White House who claim to have produced the surplus by taking a sharp knife to the budget. The Congressional Budget Office attributes only 13% of its revised estimates to legislative changes. The vast majority of the variance stems from revised economic and technical assumptions.

> While the politicians deserve only modest credit for the budget surplus, they are nonetheless **eager to dictate its use.**

So while the politicians deserve only modest credit for the budget surplus, they are nonetheless eager to dictate its use.

President Clinton was first out of the block to propose saving Social Security first — a pure political gesture designed to link budget surpluses and the salvation of a dying system in the public's mind — a clever scheme to forestall a tax rebate to the taxpayers who generated the surplus in the first place.

Consider some examples. The administration claims that the International Monetary Fund's cash infusion of $18 billion is of no cost to America's taxpayers. Although kept out of the federal budget by a special accounting device, this funding is not only derived from tax revenue, but also adds to the national debt.

Simply put, if traditional funding methods are followed, $3.5 billion in tax money will be transferred immediately to the IMF in 1999, with the balance in the form of a letter of credit redeemable — again, in tax dollars.

Additionally, the rate of return to IMF from its clients is well under Treasury bond rates. Therefore, this IMF replenishment is highly relevant to any calculation of how the surplus has been frittered away.

The highway bill, enacted earlier in the year, is a different story, since technically all the spending increases it contains were accommodated within 1997 budget deal limits. There is more here than meets the eye, however, since the additional spending committed to highway projects puts severe pressure on the so-called "spending caps" intended to restrain discretionary spending in future years (critically important to keep the surpluses coming).

That brings us to the big year-end spending blowout, which packaged funds that truly represented emergency disaster relief (hurricane and flood damage, for example) with items labeled "emergency" that clearly were foreseeable and should have been handled within the agreed-on spending caps.

These include additional cash for peacekeeping efforts in Bosnia, strengthening embassy security, national security measures and accelerating efforts to ready government computers for Y2K transition. Arguably much of this spending represents a positive shift in priorities, but characterizing it as "emergency" allowed Congress to spend without having to set priorities relative to other, less important programs and stay within the budget caps.

Surpluses make it easier to add new spending with no tradeoffs. Moreover, a strong case can be made that true emergency spending should be handled through a reserve set aside in the budget process (government can't "save" or "reserve" cash, but can set aside spending authority within an overall budget).

Since that isn't done, and since the budget rules expressly exempt emergency spending (as well as IMF funding, by the way) from rules constraining discretionary spending, the process puts a huge premium on labeling an item "emergency" in nature.

In 1998, Congress and the White House took a flying leap through precisely that loophole. And the American taxpayer will pay the price in 1999.

Hunter is an Institute for Policy Innovation senior research fellow and chief economist at Empower America. Lewisville-based IPI (www.ipi.org) is a free market think-tank specializing in taxation and government growth.

LOS ANGELES TIMES
LOS ANGELES, CA
WEDNESDAY 1,021,121
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"The Case for Burying the Estate Tax" released in the Mansfield Room of the U.S. Senate, March 17.

Health Insurance Coverage Erodes for Employees at Small Businesses

HEARD ON THE BEAT
SMALL BUSINESS 9329

By MARLA DICKERSON
TIMES STAFF WRITER

The economy may be booming, but the percentage of small firms offering health-care coverage to their employees is shrinking and the ranks of uninsured workers continues to grow.

Those are among the sobering findings of a recent report by the Henry J. Kaiser Family Foundation, which concludes that small businesses are the "Achilles' heel" of America's employer-based health insurance system.

While the economy was on a tear from 1996 to 1998, the percentage of the nation's small-business work force covered by employer health insurance actually declined to 47% from 52%—the first time it has dropped below 50% since Kaiser began tracking the trend eight years ago, according to Drew Altman, foundation president.

He says the findings are disturbing, coming during a period when the economy was roaring and the rise in health insurance premiums was relatively tame.

"If small employers can't afford coverage for their workers in the best of times, what's going to happen when the economy turns around?" Altman asked.

The national survey of nearly 1,600 small firms revealed that the percentage of companies offering health-care coverage to their workers declined to 54% in 1998 from 59% in 1996. Erosion of coverage among workers was most severe among firms with 25 to 49 employees, where 55% of workers were covered under company plans in 1998, down sharply from 66% just two years earlier.

Wage structure was another important factor determining who goes uninsured. "Low-wage" small businesses, defined as companies where 35% or more of workers earn less than $20,000 a year, were only half as likely to offer health benefits as were "high-wage" firms, where 90% or more of the work force earns more than $20,000 annually.

Even when workers at small firms do have health insurance, they're likely to have lesser coverage, higher premiums, bigger deductibles and fewer plan choices than their counterparts at large companies, according to the survey.

Which doesn't mean that the folks at the Menlo Park-based Kaiser Family Foundation are blaming small-business owners for the sorry state of worker health care. The report shows that small-business premiums are rising faster than those of large firms, and that entrepreneurs are scrambling to find less-costly alternatives before they drop coverage altogether. An estimated 25 million American workers were uninsured in 1997. Fully three-quarters of them are full-time employees of small businesses.

"The vast majority of small-business owners would love to provide their employees with health insurance coverage," said Altman, who believes that government subsidies will be needed to help more workers gain coverage. "They just can't afford it."

The report is available on-line at *http://www.kff.org* under the "health policy" icon.

Raising the Bar on Estate Taxes

Death and taxes are inevitable, but that doesn't mean entrepreneurs have to like either of them. A new study by the Texas-based Institute for Policy Innovation concludes that estate taxes soak successful family-owned businesses while generating relatively little revenue for the Treasury.

The conservative, free-market think tank is calling for an end to estate taxes, a rallying cry that's being picked up by small-business lobbying groups like the National Federation of Independent Business and some legislators on Capitol Hill.

"The people who are really getting hammered aren't the ones who are really wealthy," said economist Gary Robbins, a co-author of the study. "They owned a small business, a family farm or they were just good savers."

Once used as a tool to break up the fortunes of wealthy robber barons, estate taxes now fall on estates valued at just over $650,000—a pretty low bar in places like Southern California, where a good-sized home and a 401(k) can put many families over the limit.

Robbins' research shows that more than half of the $11.8 billion in estate taxes the government collected in 1995 were paid by estates valued at less than $5 million.

While some would argue that anyone wealthy enough to pay estate taxes doesn't have much to gripe about, Robbins argues that many of these taxpayers are rich only on paper. Forcing them to sell off parts of the family farm or bust up a business to pay estate taxes destroys wealth and jobs instead of redistributing them, he says.

Some lawmakers agree. Rep. Jennifer Dunn (R-Wash.), a member of the powerful House Ways and Means Committee, recently introduced legislation that would phase out all estate and gift taxes over a 10-year period.

To learn more about the proposed legislation, check out the Library of Congress' legislative information site at *http://thomas.loc.gov* for bill HR 8.

Robbins' report, "The Case for Burying the Estate Tax," is available at *http://www.ipi.org.*

Manufacturing Is Cool Is the Message

The big Westec '99 manufacturing expo is in town this week. And while all those high-tech lathes and machine tools are cutting edge, the industry is worried that the next generation of youngsters won't find the factory floor an appealing place to work.

So the Society of Manufacturing Engineers has just unveiled its "Manufacturing Is Cool" Web site *http://www.manufacturingiscool.com* to show kids that making stuff can be a pretty good way to make a living. Virtual tours include visits to plants where M&Ms and Jelly Belly candies are made, as well as information on colleges and scholarships for manufacturing technology.

Loan Program Aims at Distressed Areas

Small businesses in minority neighborhoods may want to check out the latest lending program offered by the Small Business Administration. The agency has teamed up with the National Community Reinvestment Coalition and major SBA lenders to create a pilot loan program called Community Express.

Essentially, it combines features of two existing programs into a new public-private partnership to assist business owners in distressed urban and rural areas. Qualified small-business owners in Los Angeles and 29 other target communities can get loans of up to $250,000, along with free technical assistance, from a NCRC affiliate. The banks get streamlined paperwork, fast processing and SBA guarantees for up to 75% of the loan amount.

The SBA has tapped Bank of America as the lender for the Los Angeles pilot, which is set to launch in May. For more information, contact John Tumpak at the Los Angeles office of the SBA at (818) 552-3203.

WASHINGTON POST
WASHINGTON, DC
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The Washington Post

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The Debate on Death and Taxes

Estate Levy Raises Questions of Fairness, Class Inequities

Economic opportunity is basic to this country's philosophy, and as a matter of principle, Americans do not empower the government to take assets from citizens simply because they have become "too rich."

When it comes to passing wealth along to the next generation, however, the philosophy gets quite muddy.

CASH FLOW
Albert B. Crenshaw

On the one hand, we acknowledge that working to build something to pass on to our children is a worthwhile motivation. On the other hand, the idea that someone should ascend to a life of ease simply by having the right parents causes considerable grinding of teeth among those who have to work for what they get.

At the center of this ambivalence is the federal estate tax, a levy imposed on the transfer of wealth from one generation to another. (Actually, the tax applies to gifts as well—to prevent the older generation from simply giving assets to younger heirs as an end run around the estate tax—and thus U.S. gift and estate taxes are referred to as unified.)

The estate tax is of special interest in Washington at the moment, since it seems to have been a factor in creating the current imbroglio surrounding the Washington Redskins.

By leaving the football team to a charitable foundation rather than his son, Jack Kent Cooke, the late owner, was able to reduce taxes on his estate drastically, but in the process he left the son, John Kent Cooke, in a bidding war to buy the team from the foundation.

How Much Goes to Estate Taxes

Average tax amount and tax rate, by size of estate:*

Size of gross estate	Average tax amount	Average tax rate
$100,000 - $599,999	No tax after credit	
$600,000 - $699,999	$2,838	0.4%
$700,000 - $799,999	$11,722	1.6%
$800,000 - $899,999	$25,526	3.0%
$900,000 - $999,999	$46,657	4.9%
$1,000,000 - $1,249,999	$68,208	6.1%
$1,250,000 - $1,499,999	$101,243	7.4%
$1,500,000 - $1,749,999	$132,371	8.2%
$1,750,000 - $1,999,999	$199,746	10.7%
$2,000,000 - $2,249,999	$226,713	10.7%
$2,250,000 - $2,499,999	$240,527	10.2%
$2,500,000 - $4,999,999	$497,469	14.6%
$5,000,000 - $9,999,999	$1,205,657	17.4%
$10,000,000 - $19,999,999	$2,338,663	17.0%
$20,000,000 or more	$6,464,009	12.5%

*For 1995 SOURCE: Institute for Policy Innovation

THE WASHINGTON POST

er-investors are increasingly finding that at their death their estates will owe substantial sums to the government.

Aware of this discontent—perhaps trading on it—a number of congressional Republicans are attacking what they like to call the "death tax." Sen. Jon Kyl (R-Ariz.) is proposing outright repeal, and Rep. Jennifer Dunn (R-Wash.) wants to wipe it out in increments over the next decade. House Ways and Means Committee Chairman Bill Archer (R-Tex.) is also a longstanding critic of the tax.

estate tax was to prevent "the concentration of wealth." But while he pronounced those words to mock the notion, it is true that enormous disparities of wealth have been a destabilizing factor in many societies.

■ The current estate tax results in large donations to charity. One reason the estate tax falls relatively lightly on many huge estates—such as Cooke's—is that people of vast wealth often prefer to see the money go to charity than to the government. If that were not the choice, churches, colleges, medical research, and other typical beneficiaries of bequests and foundation grants might see their resources shrink.

But even with these and other benefits available, the estate tax is catching a growing number of people who consider themselves middle-income Americans. Business owners, farmers and successful saver-investors are increasingly finding that at their death their estates will owe substantial sums to the government.

Aware of this discontent—perhaps trading on it—a number of congressional Republicans are attacking what they like to call the "death tax." Sen. Jon Kyl (R-Ariz.) is proposing outright repeal, and Rep. Jennifer Dunn (R-Wash.) wants to wipe it out in increments over the next decade. House Ways and Means Committee Chairman Bill Archer (R-Tex.) is also a longstanding critic of the tax.

Last week Kyl, Dunn and a number of interest groups, including the National Federation of Independent Business, the Farm Bureau Federation and the National Taxpayers Union, gathered to endorse a new economic study that roasts the estate tax.

The report, by researchers Gary and Aldona Robbins and sponsored by the Institute for Policy Innovation, located in Texas, accuses the tax of falling most heavily on medium-sized estates, reducing capital formation in the United States and retarding economic growth.

The report notes that the value of the special credit exempting smaller estates has been severely eroded by inflation. Even though Congress in 1997 scheduled a series of boosts that will raise the exemption to $1 million in 2006, inflation will have cut the real value of that to about $627,000 in today's dollars.

This phenomenon is "extending the estate tax well into Middle America," Aldona Robbins said.

Others at the gathering told of families forced to sell businesses and farms, cut old-growth forests and suffer other disruptions to pay estate taxes.

But whether all this makes the case for total repeal of the estate tax is far from certain. As voters watch the debate and make their views known to their legislators, several points are worth bearing in mind:

■ In a society that has seen the concentration of income and assets in the hands of the very rich increase sharply over the past 20 years, should giant holdings pass intact from generation to generation? Kyl noted that an early reason for the estate tax was to prevent "the concentration of wealth." But while he pronounced those words to mock the notion, it is true that enormous disparities of wealth have been a destabilizing factor in many societies.

■ The current estate tax results in large donations to charity. One reason the estate tax falls relatively lightly on many huge estates—such as Cooke's—is that people of vast wealth often prefer to see the money go to charity than to the government. If that were not the choice, churches, colleges, medical research, and other typical beneficiaries of bequests and foundation grants might see their resources shrink.

■ The benefits for capital formation and gross domestic product that would flow from repeal are highly speculative. There are numerous studies of the impact of various tax changes, and the results have been mixed. While it seems to make sense that people expend less effort pursuing wealth as they and their heirs anticipate keeping less and less of each additional dollar, it seems indisputable that the Bill Gateses and Warren Buffetts of the world keep on trucking, taxes or no taxes.

It's plain the estate tax could use some work. It's too complicated, and the Robbinses correctly point out that it too often catches people who do not think of themselves as rich and so don't make plans with the taxes in mind. At the same time, the government doesn't get that much revenue from the tax anyway.

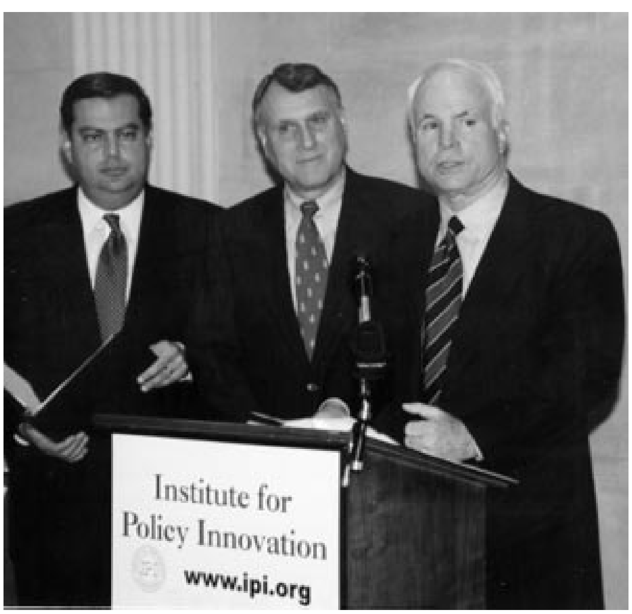
Boosting the exemption to $5 million would have eliminated the estate tax on all but about 2,500 estates in 1995 and would return the estate tax to a levy imposed only on the very rich. Indexing it would prevent the inflation-generated backsliding that has accompanied most earlier boosts in the exemption.

It's a legitimate question—and one Democrats are likely to raise—whether we would want to exempt estates as large as $5 million. But the debate should truly be based on what is best for society and for the economy, and not on class warfare or making the world safe for billionaires.

IPI on Capitol Hill

IPI President Tom Giovanetti looks on as Majority Leader Dick Armey praises IPI study "Barriers to Enterprenership" by research associate Naomi Lopez.

"The Case for Burying the Estate Tax" is released with the assistance of (L-R) Rep. Jerry Weller; Sen. Jon Kyl; IPI's Aldona Robbins, Gary Robbins, and Kerri Houston; and Rep. Jennifer Dunn.



Senators Spencer Abraham, Jon Kyl and John McCain commend IPI's "Retiring the Social Security Earnings Test" at its June release.

The Washington Post

BUSINESS

Sunday, April 25, 1999

Circulation - 1,021,121

With Social Security, Life Begins at 70

By Stan Hinden
Special to The Washington Post

Many of my fellow retirees have a special reason to celebrate when they reach their 70th birthdays. For them, turning 70 means they can work and earn as much as they want without being forced to give up part of their current Social Security benefits.

RETIREMENT JOURNAL
Stan Hinden

Currently, about 1.4 million retirees between the ages of 62 and 70 give up part or all of their current Social Security payments each year—a total of $6 billion—because they earn more than the law allows. As a result, the 70th birthday in America has become a kind of Older Workers' Independence Day—a day many retirees eagerly anticipate.

The cause of this late-life jubilation is a law called the Social Security earnings limit. It's the law that everybody loves to hate, a law that many in Congress and the Clinton administration want to see repealed this year.

By luck, I was not affected by the earnings limit, because I retired at 69 and did not start writing again until I was 70. My wife, Sara, retired at 65 and did not work again. But it is easy for us to understand why people are upset about the earnings limit.

Having "earned" their Social Security through a lifetime of contributions, these retirees can't see why continued work should cost them any of their current benefits. Moreover, they fail to see the logic of telling retirees they must be penalized at 68 or 69 but not at 70.

Repeal of the earnings limit, it appears, could be part of a Social Security reform plan or part of a tax measure. But both topics are highly controversial, and repeal could get lost in legislative wrangling, although it has considerable biparti-

See HINDEN, *H5. Col. 1*

Working and Losing Benefits

Many working retirees 62 to 69 years old give up some of their Social Security payments. Here is what they can make without losing any of their benefits, and what they lose if they exceed the limit:

Age range	Earnings limit	Limit in 2002	Limit in 2005	Benefits impact
62-64	$9,600	$10,680*	$11,880*	Lose $1 in current Social Security benefits for every $2 earned above the limit.
65-69	$15,500	$30,000	$33,240*	Lose $1 in current Social Security benefits for every $3 earned above the limit.
Over 70	No limit			

*Projected; all others are actual

SOURCE: Social Security Board of Trustees

THE WASHINGTON POST

Support for Repeal of Social Security Earnings Limit Growing

HINDEN, *From H1*

san support.

To avoid losing their current Social Security payments, many retirees in America work each year "up to the limit." Between 62 and 64, the limit during this year is $9,600. Between 65 and 69, the limit this year is $15,500. After 70, there is no limit.

Kenneth Apfel, who heads the Social Security Administration, has had some firsthand experience with the idea of working "up to the limit." Apfel told me that his father, Walter Apfel, a steel salesman, continued to work after he retired in his early sixties and began collecting Social Security.

"When my father retired," Apfel said, "he would work right up to the earnings limit—and not work beyond it—because he did not want to lose his Social Security benefit." The commissioner said he tried to convince his father that even if he worked beyond the limit, he would not be losing his benefits in the long run.

For every year after 65 you don't collect Social Security, the average monthly payment increases when you do start to collect it. If you lose part of your benefit in a current year, you'll get it back eventually.

"I'd say to him: 'Dad, you're going to get it back. You lose it for that year, but it gets added on to your benefits for the rest of your life.'"

The commissioner said his father was not convinced. "He'd say, 'I'm not sure what happens 10 or 15 years from now. I want to know what happens now.'"

In his talks with his father, Apfel was referring to what's called the delayed-retirement credit. People who turn 65 this year but don't start collecting their benefits until next year are entitled to a future annual credit equal to 5.5 percent of what the benefit payment would have been. For example, workers who stay on the job until 68 and then retire will get their normal 65-year-old's benefit plus 16.5 percent for the extra three years of work.

People who work after retirement and lose some of their benefits because they earn more than the limit will start to get those benefits back the next year. The extra benefits are spread over the Social Security checks that people will get for the rest of their lives—based on a life-expectancy formula—a prospect that doesn't appeal to many retirees.

Apfel recently told Congress he favors repeal of the earnings limit as part of an overall Social Security reform package. He called the limit "a confusing and anachronistic holdover from the earliest years of the program" and said "eliminating this work disincentive will allow people the freedom to choose to continue to work in their retirement."

Here is the way the Social Security earnings limit works: If you are 62 to 64, you lose $1 in current Social Security payments for every $2 you earn (before taxes) over $9,600. If you earn $20,000, you lose $5,200 in current benefits.

If you are 65 to 69, you lose $1 in current benefits for every $3 you earn above $15,500. If you earn $20,000, you lose $1,500 in current benefits.

The earnings limit increases each year. For the 65-to-69 age group, the limit will reach $30,000 in 2002. For those 62 to 64, the earnings limit is projected to reach $10,680 in 2002.

Repeal of the earnings limit has wide support. President Clinton, in his State of the Union message, said, "We should eliminate the limits on what seniors on Social Security can earn." House Speaker J. Dennis Hastert (R-Ill.), who supports repeal, recently said: "It's nonsense that working seniors get penalized by Uncle Sam simply because they want to hold a job and contribute to society in their golden years."

Sen. John McCain (R-Ariz.), author of a Senate repeal bill, said, "Most Americans are shocked and appalled when they discover that older Americans are penalized for working." McCain's bill has nine Senate co-sponsors.

A House version of McCain's bill was introduced by Reps. Sam Johnson (R-Tex.) and Collin C. Peterson (D-Minn.). "As we make medical advances, we are living longer and longer and seniors want to be productive," Johnson said. "What a deal—seniors earn $3 and lose $1 in benefits. We could do better at the bingo table. It doesn't make sense that our productive seniors are penalized for working, saving and investing." The Johnson-Peterson bill has 85 co-sponsors in the House.

One of the stumbling blocks to repeal is its initial cost. If there were no earning limits, all working retirees would get their full Social Security payments, which would cost an additional $25 billion over five years.

The Clinton administration has not said whether it favors ending the income limit for those between 62 and 64 or just for those 65 to 69. If repeal were to affect only those over 65, as seems possible, the cost would be $15 billion over five years. After five years, because of the mechanics of Social Security, the costs of repeal would diminish rapidly.

"The short-term costs are large. The long-term costs are not," Apfel said.

FAMILY PHOTO

Social Security head Kenneth Apfel was unable to persuade his father, Walter, to work beyond agency's earnings limit, for fear of losing benefits.

Even so, finding $15 billion to fund the repeal could be a problem, although some observers think it may be easier to do in this era of Social Security and budget surpluses than it was when deficits were the order of the day.

Advocates of repeal contend that letting retirees work to their hearts' content would have beneficial economic and tax effects.

The increase in the labor supply of people between 65 and 69 would translate into 63 million additional hours worked, or the equivalent of 31,500 more full-time jobs, according to a forthcoming study by Aldona and Gary Robbins of the Institute for Policy Innovation, a conservative think tank in Lewisville, Tex., that specializes in taxes and regulatory issues and receives the majority of its funding from conservative foundations.

That increase in labor supply would boost the nation's gross domestic product, a measure of goods and services, by $19.5 billion and would add $6.8 billion to the nation's store of capital. "By 2010," the researchers said, "the extra revenue from added growth would be enough to offset the higher benefit payments that stem from eliminating the earnings limit."

Support for repeal has come from many organizations, including the Institute of Electrical and Electronics Engineers-USA, which has 225,000 members. The IEEE-USA noted that skilled professional and technical workers are in short supply and that many available jobs could be filled by recent retirees. The group complained that the earnings limit was a "major disincentive" for qualified retirees to take those jobs. A recent IEEE-USA survey indicated that 15.6 percent of its members—or 35,100 people—were not available to work because of the earnings limits.

One of those people is Francis C. Lewis of Odenton. The 66-year-old retired engineer and electronics technician said he works the equivalent of six months a year—until he earns $15,500. If he earned more than that, Lewis said, he would have to give up some of the $13,000 a year he draws in Social Security benefits. But, if there were no earnings limit, Lewis said, he would be working full time.

"I think you should be able to make what you can make," Lewis said. He also said he thought if workers can earn as much as they want at 70, they should not be penalized for working when they are in their sixties.

Another vote for repeal came from Antonio Santos, 67, a retired technician for Channel 4 in Dallas, where he works only 16 to 20 hours a week so he will stay below the earnings limit of $15,500. But Santos is not happy about the limit on what he can earn. "It's a bummer," he said.

Santos, who operates robotic cameras, has a skill that is in demand. But last year, he reached his earnings threshold by June and had to take the rest of the year off.

If it were not for the earnings limit, Santos said, he would be happy to work 30 to 35 hours a week. That, he said, would help the station where he worked for 45 years and it would help his grandchildren, whose education he helps pay for.

"I think that if a person is willing to work and is in good health, there should be no limit on what that person can earn," Santos said.

There are many in Washington who agree. The question is whether they can find a way to help Lewis and Santos keep working. As a working retiree myself, I hope that they do.

Estate tax bills

FRONT PAGE

Reform plans attract state's reps in D.C.

By GEORGE ERB
STAFF WRITER

Washington lawmakers from both sides of the aisle are getting behind plans to pull the plug on the federal estate tax, long blamed for forcing many heirs to sell the family business in order to pay their tax bill.

The issue, long championed by the GOP, is now getting attention from Democrats. U.S. Rep. Adam Smith, D-Kent, has introduced an estate-tax bill and U.S. Rep. Brian Baird, D-Vancouver, is supporting legislation co-authored by U.S. Rep. Jennifer Dunn, R-Bellevue.

"There seems to be growing momentum," Baird said. "You hear the personal stories, and you say

See TAX, Page 45

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TAX: *Momentum growing on estate-tax issue*

FROM PAGE 1

to yourself, 'Something is wrong with this system.' "

More than 340 members of the U.S. House of Representatives, including several members of Washington state's congressional delegation, have lined up behind one of two bills that would eliminate the tax, either in phases or all at once. Similar bills are under consideration in the Senate.

"It's one of the live-wire, grassroots issues of the session," said Meg Jacobsen, executive director of the western region of the U.S. Chamber of Commerce in San Mateo, Calif.

The federal government now taxes that portion of an inheritance that exceeds $625,000 at rates that generally range from 37 percent to 55 percent. In some cases, rates have climbed as high as 80 percent, according to one congressional study.

Estate taxes last year generated about $23 billion for the federal government, which accounts for slightly less than 1 percent of all federal revenues. Proponents say estate taxes also encourage charitable giving and redistribute the nation's wealth.

But the estate tax is mostly unloved in the business community, and especially among family firms. Too often, critics say, the tax bill is so big that families must sell all or part of the family business to pay it. Even families that prepare for tax day can spend large sums of money on legal advice, accounting services or insurance.

In Washington state, the Frank Russell Co. of Tacoma last year became a poster child for rolling back the federal estate tax. The family of George and Jane Russell, which owned 60 percent of the company, decided to sell the business rather than run the risk of breaking up their company to pay a multimillion dollar tax bill.

George Russell was unequivocal about the family's motives. When asked what role the estate tax played in the family's decision to sell, Russell replied: "One hundred percent."

Family firms have become increasingly vocal about the issue. Frank Blethen, whose family holds the majority interest in The Seattle Times Co., has publicly advocated rolling back the estate tax. When a group of state florists recently visited Smith's office in Washington, D.C., they said their number one concern was estate taxes.

"It's a major priority for small businesses," said Alixandria Weise, Smith's spokeswoman.

Baird tells the story of a bottling company in his hometown of Vancouver that is owned by a family with strong community ties. If the owner dies, the family might not be able to pass the business on to the next generation because of estate taxes.

Baird has heard similar stories from family businesses throughout his district, which covers Southwest Washington.

"I have heard repeatedly the frustrations they face, and the personal costs they endure, as they prepare to pass a business or a farm to their children," Baird said. "You hear these stories, and you become convinced that something is wrong."

Members of Congress have taken their concerns back to Capitol Hill, where several bills are now under consideration.

Smith's office says his proposal would cost the federal government about $58 billion in foregone revenue over a 10-year period, while Dunn's phased elimination of the estate tax is estimated to cost the government about $198 billion over the same time period.

Few observers expect Congress to pass an estate-tax break as a freestanding bill. Rather, lawmakers are more likely to include estate taxes in a tax-cut package that could move through Congress in late summer or early fall.

A tax-cut package is widely expected, and many believe an estate-tax provision has a better than 50-50 chance of being part of the bill.

The estate tax "is the first thing that people refer to when they talk about business tax cuts," said Brian Reardon, manager of federal public policy at the National Federation of Independent Business in Washington, D.C.

"We've been working for the past five or six years to put the 'death tax' at the forefront of discussions," he said. "This is our opportunity."

Tax now hits middle class as well, study concludes

Federal estate taxes, once aimed at the rich, are becoming increasingly burdensome to the middle class, according to a study released last month by the Institute for Policy Innovation, a nonprofit think tank in based in Texas.

The study is the second report in recent months that is critical of the federal estate tax, which taxes that portion of an estate that exceeds $625,000 at rates that usually range between 37 percent and 55 percent. All assets are taxed, including family firms.

In December, a study by the congressional Joint Economic Committee concluded that the costs of the estate tax to taxpayers, the economy and the environment more than offset the benefits that come from the revenue. The federal government collected $23 billion with the tax in 1998.

In the institute's report, authors Gary Robbins and Aldona Robbins said the estate tax is a growing burden on medium-sized estates because asset values have risen faster than federal tax exemptions. Consequently, medium-sized estates are now more likely to pay higher rates than the biggest estates.

Family firms are especially vulnerable because they often belong to people who started a business on a shoestring and spent a lifetime building the business and their wealth. In many cases, those entrepreneurs cannot afford to pay the tax bill and keep their business intact for the next generation, they wrote.

The authors urged Congress to either reduce the estate tax or eliminate it altogether. "All in all," they concluded, "American taxpayers, the economy and the government would be better off without estate taxes."

— GEORGE ERB

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VIEWPOINT

Is There A Tax Cut In Your Future?

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By ALDONA & GARY ROBBINS

The biggest dilemma facing Washington these days is what to do with those ever-mounting surpluses. The momentum for income tax rate cuts may be slowing. But there are other tax changes that could help just as much — and play better politically.

Both the White House's Office of Management and Budget and the Congressional Budget Office are forecasting annual surpluses in the $100 billion to $200 billion range by 2004. Over the next six years, surpluses could reach $1 trillion.

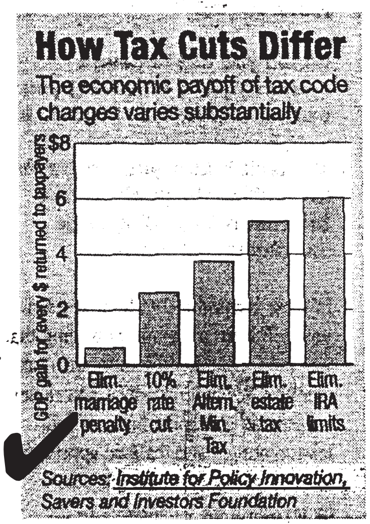
Some lawmakers have been talking about giving a portion of the surpluses back to taxpayers. But President Clinton doesn't want to cut taxes because people might "spend the money unwisely." He would rather use the surpluses to somehow save Social Security.

In fact, the surpluses can only be used in one of three ways: to increase government spending; to retire government debt; or to cut taxes.

Of course, more government spending would be the most harmful choice — especially in the long term. Washington still has done nothing to address the growing deficits in Social Security and Medicare after 2010, when baby boomers begin to retire. There is no reason to stoke that fire by adding new programs.

Those who find debt reduction attractive because they think it is saving for the future must remember that surpluses arise when government takes in more in taxes than it spends.

When the government reduces its debt, extra tax dollars are given back to people who hold Treasury bills, bonds and notes. However, don't expect bondholders to shift dollars once held in Treasuries into private investment to create new saving. The reason? By raising taxes — and bondholders are taxpayers — to run a surplus, government merely takes a dollar out of one pocket through higher taxes and gives it to another pocket through debt redemption. The net effect for the economy is zero.



Sources: Institute for Policy Innovation, Savers and Investors Foundation

That leaves tax cuts.

But the unity among House and Senate Republicans in favor of tax cuts that had been building earlier this year has dissipated. While rate cuts had been the early favorite, those who still want to cut taxes are advancing other ideas such as reducing the marriage penalty, doing away with the estate tax, expanding individual retirement accounts, 401(k)s and other retirement vehicles.

If done wisely, returning the surpluses to taxpayers could strengthen the economy and keep what is now the second longest recovery going. Because capital is very mobile, tax cuts that help the economy the most are those that raise the return on capital by lowering the tax bite on the next dollar invested.

Tax cuts that let people keep more of what they earn from working another hour also have positive, albeit smaller, economic effects. Because the estate tax and IRAs directly affect saving and investment, reducing the former or expanding the latter would yield the biggest economic payoffs. In fact, for every dollar of static revenue, gross domestic product would go up by $5 to $6.

In contrast, across-the-board rate reductions, which are split roughly 75%-25% between labor and capital, would generate about half that effect. Reducing the marriage penalty or other targeted tax cuts would be the least effective because they usually do not reward extra work effort or added saving and investment. (See chart.)

The coming months will undoubtedly see the Congress and the White House continue to struggle over what to do with the surpluses. In the end, there will likely be a compromise — some increased spending, some debt reduction and some tax cuts. Rate cuts are probably doomed by the high "price" tag — roughly $95 billion a year for a 10% reduction.

In contrast, eliminating estate and gift taxes would cost less than $30 billion a year. And expanding Roth IRAs would cost even less. By picking one of these, Congress could buy at bargain prices some added insurance to keep the recovery going.

Aldona and Gary Robbins operate Fiscal Associates and are senior research fellows at the Institute for Policy Innovation in Lewisville, Texas.

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The Outlook

New tax breaks draw mixed views

Analysts recognize benefits, but prefer fairer, simpler code

WITH new tax breaks for children, college tuition and retirement accounts, taxpayers face more figuring than ever when it comes to filing taxes. How have the new breaks affected the annual tax season? How are these so-called targeted breaks likely to affect the economy? What are the consequences for tax reform?

Stephen Moore

Director, fiscal policy studies, Cato Institute, Washington

Taxpayers keep telling Congress they want a simpler tax system, but Congress has continued to add new deductions. I view this move toward targeted tax credits as something that adds to our headaches as we try to figure out how much we owe.

The overall burden for a typical working-class family is rising. Just to accentuate that point, in 1993, the average middle-class worker was paying 22.5 percent of his wages in taxes at the federal level. In 1999, it's estimated that figure will rise to a shade under 27 percent, according to the U.S. Treasury Department. Our overall tax burden is creeping up even as the tax code is being carved up.

We've gotten into a tax environment where Congress is using the tax code for social policy purposes. If people actually had lower tax rates, they could pay for college themselves and they wouldn't need special breaks. The child care credit is also silly. If taxes weren't so high in the first place, families maybe wouldn't need two people working, or at least they could afford their own child care.

In my opinion, it's all economically inefficient. A good tax system should have a broad tax base with low tax rates, and we've gotten away from that. That's why I've always been an advocate of a flat-rate system. Tax credits distort the economy when a person doing activity A gets a break and a person doing activity B doesn't.

Charles McMillion

Chief economist, MBG Information Services, Washington

I think that the changes make sense, although they go against two decades of movement away from using the tax code to micromanage or direct the economy.

There are activities such as education you want to encourage beyond what the market ordinarily provides. I think these kinds of incentives are useful. While they can lead to cheating and they certainly make tax filing more difficult, more expensive and more time consuming, I think they are worthwhile.

I think it's a stimulus for the private economy. Certainly that's the goal in Maryland and around the country. What legislatures have intended to do is to provide incentives where you get the most payoff. The changes are positive and preferable to broad tax cuts, where the government faces a large revenue loss.

It's true that tax preparation is more complicated and the changes represent a movement away from tax simplification. But if the alternative is to do nothing or to have a broader tax reduction, my preference would be to target tax reduction to where the government particularly needs it and to areas where we get more bang for the buck.

The question shouldn't be whether to use the tax code to encourage behavior. The question should be whether the behavior is the right behavior to encourage. Future tax policy will depend on many things. Like so much else, it depends on the stock market.

Aldona Robbins

Senior Fellow, Institute for Policy Innovation, Lewisville, Texas

The tax credits basically make things much more complicated. There are more lines and more forms to fill out. The other thing that's happening — though we don't know the details yet — is these credits may be pushing more people into the alternative minimum tax, which was originally designed to capture tax revenue from the super wealthy.

What's happening now is it's dropping into the $50,000 to $70,000 income range. The AMT affects one of every 150 taxpayers. By 2007, it's going to affect one of every 14. It's starting to hit more people than it was ever intended to and the new credits make it worse.

The tax breaks don't do anything for the economy. They don't do anything to change incentives to earn, save or invest. They have no effect on the economy. The Roth IRA does provide an extra incentive save and invest.

In terms of broad-based tax reform, which is what we're going to have to turn to, the Roth IRA is really the way we should really treat all savings: You only tax a dollar of income once.

The Roth IRA doesn't add to complication, but those other breaks do, and they make it more difficult to get reform and make the system more simple. When you give out a targeted deduction, people don't like to give it up.

Lawrence Chimerine

Chief Economist, Economic Strategy Institute, Washington

On a net basis, some tax credits are helpful, but we ought to move more toward simplifying the code. Some credits help people who are on the bottom rung of the economic ladder and they really need the help.

But the credits aren't likely to affect the economy a lot because they are so limited in size. For example, the child care credit will help some families, but the credit isn't large enough to create a big overall economic effect.

Targeted tax breaks are designed to help some people with their specific needs. We'll probably get more of them instead of tax reform for a while. And that's what's needed. I'm for the right kind of reform that keeps the system progressive, and tax breaks don't get at the issue. Even so, big tax cuts or tax reforms are not likely.

Compiled by Sean Somerville and Shanon D. Murray

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Other Comments

Give Us Back Our Money

BOTH THE President's Office of Management and Budget and the Congressional Budget Office are forecasting annual surpluses in the $100-to-$200 billion range by 2004. Over the next six years, surpluses could reach $1 trillion.

President Clinton doesn't want to cut taxes because people might "spend the money unwisely." He would rather use the surpluses to save Social Security.

If done wisely, returning the surpluses to taxpayers could strengthen the economy. Because the estate tax and IRAs directly affect savings and investment, reducing the former or expanding the latter would yield the biggest economic payoffs. For every dollar of static revenue, GDP would go up by $5 to $6.

–ALDONA AND GARY ROBBINS,
Institute for Policy Innovation

The Right Move

WITH A NEW AND IMPROVED incentive structure, domestic and foreign investment capital will flow into Japanese markets. Not just portfolio investment in the stock market, but direct business investment as well. By lowering the tax burden on production and capital formation, jobs and income will be created. Entrepreneurship will come alive.

Now, to nurture the tax cut plan, the Bank of Japan should not be bashful in supplying the necessary liquidity to finance growth. For all the talk of near-zero interest rates, Japan's money policy still looks too tight.

Nearly 20 years ago the U.S. economy faced inflationary recession. The solution was tax cuts and tighter money. Today the Japanese economy faces deflationary recession. The solution: tax cuts and *easier* money. Springtime in Tokyo could be very promising.

–LAWRENCE KUDLOW, chief economist, American Skandia

I'm impatient with stupidity. My people have learned to live without it.

–MICHAEL RENNIE as "Klaatu" in *The Day the Earth Stood Still* (1951)

Get Rid of Him

TIME AND AGAIN the Clinton Administration has sent senior envoys to wine and dine Slobodan Milosevic in the hope of convincing him to behave. Time and again he has clinked glasses and then returned to his genocidal ways.

The Clinton people must stop trying to entice Milosevic to dinners at French castles and instead treat him as the pariah he is, while helping those in Serbia who oppose Milosevic's fascist regime and who understand that building a free, pluralistic society is the key to bringing down this bloody tyrant. Milosevic's removal is the only policy that can bring lasting peace to the Balkans.

–SENATOR JESSE HELMS (R–N.C.),
Washington Post

A-plus Approach

WHILE HOME-SCHOOLING her 10 children during the past 16 years, Annette Tillemann-Dick has heard the criticism of home schools as artificially protective environments, or "hothouses."

"A hothouse isn't a bad place to raise a seed," Tillemann-Dick said. "When they grow, they're in a stronger position to be transplanted."

She now home-schools six children. The older four are in college. Three are at Yale. Charity, 15, attends Regis University in Denver and plans to transfer to Yale or another Ivy League school.

Tilleman-Dick encourages her children to read, then study what they find interesting in more detail. Charity is lobbying politicians regarding her plans for a National Civility Week. Shiloh, 8, has a keen interest in World War II-era airplanes. Corbin, 13, discusses computers like a Silicon Valley insider. And they all play a mean game of Foosball.

–SEAN KELLY, *Denver Post*

In Poor Condition

ECUADOR hopes to sign a letter of agreement on a $400 million standby loan with the International Monetary Fund. The IMF will certainly impose conditionality to try to force reform—calling for higher taxes, spending cuts and more openness—but only the tax hikes are likely to get through the Ecuadoran congress. The result of IMF conditions would be new burdens on an already overburdened economy.

Increased uncertainty has drained money from the country. President Jamil Mahuad's drooping popularity empowers his political adversaries, who are battling economic liberalization. IMF officials who think they can enforce meaningful reform through conditionality under these circumstances are in denial.

–MARY ANASTASIA O'GRADY,
Wall Street Journal

On Bread Alone

ANY RESTAURANT review that fails to evaluate the quality of the bread is either incomplete or completely invalid. Fantastic bread can overcome an ugly restaurant with brutish service, recently defrosted desserts and burned coffee.

–JEFFREY STEINGARTEN,
The Man Who Ate Everything

"He's very angry. He wanted the tuna and egg."

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Daily Grind

IN 1999, on average, Americans will spend 2 hours and 51 minutes of each eight-hour working day to pay taxes. Most of this time, 1 hour and 57 minutes, will be spent working to pay federal taxes. The remainder, 54 minutes, will be spent working to pay state and local taxes. To put the total tax bite into perspective, note that on average Americans will spend more time working to pay their taxes than they will spend working to provide for food, clothing and shelter combined.
–PATRICK FLEENOR and
J. SCOTT MOODY, Tax Foundation

The Only Way Out

WITH HUNDREDS of planes flying 24 hours a day at high speed over unfamiliar terrain and often in overcast weather, it is conceivable that Serbian civilians, and perhaps more Albanians trapped inside Kosovo, will be inadvertently killed or injured. NATO must continue to do all it can to minimize civilian deaths, but it cannot avoid them entirely. Only Slobodan Milosevic can do that, by agreeing to NATO's peace terms, including a withdrawal of all Serbian forces from Kosovo, the safe return of all refugees and acceptance of an international military force to protect them. By far the greatest threat to Kosovo's Albanians is Serbia's soldiers and police. NATO bombing is the best hope for ending that threat by forcing Serbia's withdrawal.
–*New York Times*

Rainy Days Ahead

A SURVEY DONE by International Communications Research for Merrill Lynch found that despite an increase in financial education, fewer teens are saving what they earn or otherwise receive (allowance). In fact, although 56% of the respondents have had a class in school that discussed saving money or investing, compared with 44% in 1998, 18% now say they usually spend most of their money as soon as they get it, compared with 12% last year.

That shouldn't come as a surprise to the parents. Last year, the U.S. savings rate dropped to 0.5% of disposable income, the lowest since 1933. The personal savings rate was –0.2% in February, the third time since September the rate has been negative, after 40 years on the plus side.
–*Barron's*

Mickey Mouse's immense popularity and the strength of liberal democratic ideas is no strange coincidence. He is a reflection of how we view modern man: Confident, humane, lively, smart and democratic. He lives in a context where background, family connections and historical baggage are irrelevant.
–BARRY HING,
Far Eastern Economic Review

Inheriting Headaches

THOSE LIKELY to pay the highest estate tax rates are those with medium-sized inheritances. These are passed down from owners of small businesses and family farms who amass wealth during their lifetimes through hard work and thrift. Because such wealth is often unexpected, these people may not be aware of or take full advantage of ways to reduce taxes. In contrast, the very rich who have inherited their wealth plan ways to mitigate the death tax through careful estate planning.

We have estimated that if the federal estate tax were eliminated in 1999, then by the year 2010:

- Annual GDP would be $117.3 billion, or 0.9% above what it would be with the tax.
- The stock of U.S. capital would be higher by almost $1.5 trillion, or 4.1% above the baseline.
- Between 1999 and 2008, the economy would have produced $700 billion more in GDP than otherwise.

–GARY and ALDONA ROBBINS,
Institute for Policy Innovation

"That was incredible. No fur, claws, horns, antlers, or nothin'. . . Just soft and pink."

Culture Shock

WHEN THE PORTUGUESE explorer Pedro Alvares Cabral first stepped on Brazilian soil, on the coast of Bahia, in April of 1500, the country had five million Indians, scattered among nine hundred tribes. They spoke 1,175 languages, and except for the usual tribal skirmish they were peaceful people.

After five centuries of getting themselves "civilized" by Europeans, the Indian population had been decimated. Only 270,000 survived in 206 tribes using 170 languages.
–*The Testament,* by JOHN GRISHAM

Still True

A GAME OF CATCH is an essential gesture of parenthood when families are working well. Everyone tosses to be understood. The best part of the game is the silence.

After the recent heartbreaking shootings in the schools, people on TV said parents ought to talk to their children more, which seems sensible and true. But they should also find situations in which talk is unnecessary and they can tacitly acknowledge the mystery of their connection, and be grateful for it, in silent play.
–ROGER ROSENBLATT,
Time (July 13, 1998) ■

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COMMENTARY

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U.S. sits still as Social Security revolution spreads

By Peter J. Ferrara
Special to *Houston Business Journal*

While Washington continues to dither in political posturing, the worldwide revolution in Social Security continues to spread. Last July, the socialist haven of Sweden joined the ranks of reformers in allowing workers a personal, individual investment account option. Sweden followed Poland and Hungary, which both adopted broad personal investment account systems over the past few years.

In Latin America, seven countries have now followed the lead of Chile, which first adopted a personal investment account option in 1981. Chilean workers have chosen major American firms such as Chase Manhattan Bank or Boston's State Street Global Advisors to invest their money around the world instead of paying into their government Social Security program.

These investment firms have earned an average of over 10 percent per year after inflation for these workers for almost 20 years. Because of these personal investment accounts, the average Chilean worker now has more savings than the average American worker, even though earning only one-seventh as much as the average American worker.

Most workers in Great Britain have now chosen to save and invest through private investment plans. In Australia, a union-dominated Labor government in the early 1990s replaced the old system with a personal investment account system.

But in America, labor unions represent left-wing ideology rather than workers. AFL-CIO President John Sweeney has pledged to use over $40 million of U.S. workers' money next year running name-calling political ads against supporters of personal investment accounts.

A personal investment account option for America should now be the top priority for Congress and the President, for no other change would do so much to increase the liberty and prosperity of the American people.

If workers shifted into personal accounts today, the long term Social Security financial crisis would be averted. As a result, we would then avoid the eventual payroll tax increase of 50 percent to 100 percent or more otherwise necessary to pay promised benefits.

Moreover, workers would get far more in benefits through the personal investment accounts than Social Security promises, but cannot pay.

In "A New Deal for Social Security," a book which I co-authored with the Cato Institute's Michael Tanner, we offer the example of an average income two-earner couple who, from the start of their careers, invested through a personal account what they and their employers would otherwise pay into Social Security.

At a 4 percent real return on investment, just over half the average return earned in the stock market over the last 75 years, our couple would retire with almost $1 million in today's dollars, after accounting for private survivors and disability benefits.

Their fund would pay them more out of continuing investment returns alone than Social Security promises, while allowing them to leave the almost $1 million to their children. Or the funds could be used to buy an annuity paying them over

three times what Social Security promises but cannot pay.

The same is true for all workers today in every income level and family combination. Even low-income workers who receive special subsidies through Social Security would receive much more in benefits from the personal investment accounts.

In addition, a full personal account option would ultimately eliminate the current $9.5 trillion in Social Security's unfunded liabilities, as workers' retirement benefits would be financed through their fully funded private accounts rather than government entitlement. Such reform would do more to reduce real government debt than paying off the national debt.

With retirement, survivors and disability benefits eventually privately financed under the reform, federal spending would ultimately be reduced by about one-fourth, resulting in the biggest reduction in government spending in world history.

There would be a similar reduction in taxes, as workers paid into their personal accounts rather than into Social Security. Addressing Social Security with a real personal account option would also free Congressional Republicans to pass a sweeping general tax cut this year, which Clinton is stopping now by arguing that Social Security needs to be addressed first.

Finally, there would be a free market political revolution as a result of such reform. Retirees would live independently from substantial accumulated private trust funds invested in stocks and bonds, rather than be dependent on government benefits.

Every government threat to the private economy would then be a direct hazard to the income and security of retirees. A new political culture of independence through the private economy would flourish. ■

Peter J. Ferrara is a research fellow for the Institute for Policy Innovation, a Dallas-based public policy research organization.

Dallas Events

IPI's visiting fellow Stephen Moore of the Cato Institute addresses IPI luncheon attendees in March.

Congressman Pete Sessions with IPI's Gary and Aldona Robbins at the June Estate Tax luncheon.

In May, IPI hosted a luncheon for *The Wall Street Journal's* Amity Shlaes. Ms. Shlaes, pictured here with Nikki and Dennis McCuistion, also taped a segment for The McCuistion Program.

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E D I T O R I A L S

EDITORIAL

The First Revisionist

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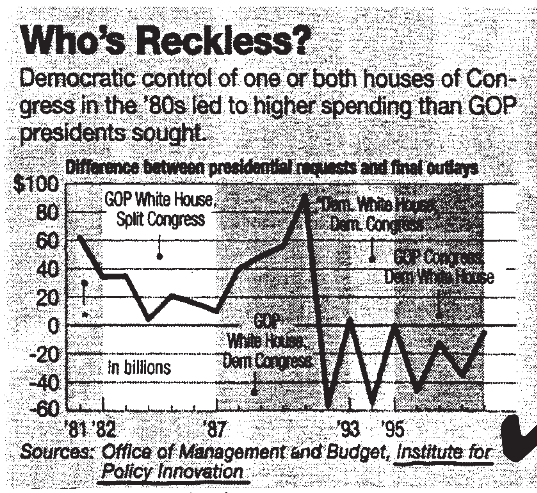
To hear President Clinton tell it, the country owes its present economic prosperity all to him. So too a higher budget surplus. In fact, he says the fiscal policies of the Reagan-Bush era were "reckless." Hogwash.

For someone who decried playing politics just a few days ago, Clinton wasted no time in sharpening up the partisan needle.

"In the 12 years before I took office, reckless fiscal policies quadrupled our debt, bringing us higher interest rates, higher unemployment, higher inflation."

Huh? When President Reagan took office, the unemployment rate topped 7%. By the time he left, it was under 6%. In 1980, the yield on the 30-year U.S. bond was 13.91%. On his leaving, it was 6.69%. And inflation? It grew 10.3% in 1981, and only 4.1% in 1989.



As for the higher debt, Clinton should look to the actions of the Democrat-controlled houses of Congress in the last 12 years. They spent more than Reagan wanted. (see chart). Plus, he thinks it's all his doing that the federal government will run a surplus this year that's $20 billion more than expected in February — $99 billion, not $79 billion. The 15-year surplus is expected to be $1 trillion more under these new projections.

Far from thanking his economic team, he ought to tip his hat to the policy foundations President Reagan put in place, Bush carried on (sort of) and the Republican Congress built upon when it took control in 1994.

But not this president. He's said one thing and done another for so long and so many matters, that he doesn't even flinch at his utter hypocrisy.

Consider the "reckless" policies of Reagan, faced with economic calamity and Soviet adventurism:

- A 25% across-the-board income tax cut for individuals. Business tax cuts and a rollback of heavy government regulations. A slowdown in discretionary spending.
- Reappointment of Paul Volcker and appointment of Alan Greenspan as chairman of the Federal Reserve.
- More defense spending to rebuild what had become a hollow army.

And what did these reckless policies produce? Economic growth, more personal freedom and the fall of the Iron Curtain.

Tax cuts spurred more work, because firms and people got to keep more of their money.

The rollback in rules let businesses devote more of their time to expansion and innovation, instead of government red tape.

The two Fed chairmen understood that inflation hurt everybody and kept the lid on money supply growth. Clinton can take credit for reappointing Greenspan, but not for reducing inflation.

And faced with the resolve of the U.S., the Soviet Union ultimately crumbled, to be swept into the dustbin of history.

Yes, Clinton was elected in 1992 on the heels of a recession, enhanced by the policies of Bush. He endorsed tax hikes, vast new government regulatory schemes and greater growth in government spending. All that slammed the door on growth in an economy that was already slowing down.

But upon taking office, what did Clinton do? He passed yet another tax hike. Plus, he pushed a plan to let the government take over the health-care field — merely one-seventh of the economy.

And for this fiscal discipline, he was rebuked by the voters who voted in 1994 to turn Congress over to Republicans for the first time in 40 years.

Since then, Clinton's leftward tilt toward more and more government has been largely held in check by the GOP Congress.

It is true that since he bested the Republicans in the government-shutdown showdown, the GOP Congress has spent more than even he requested.

But now with a larger surplus, he's ready to turn on the spending spigots again.

We shouldn't be surprised that Clinton has little regard for the truth. He's never shown any before.

But this latest revision of history, all to exalt his tainted presidency, is galling.