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TAX FEATURES

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Archer Offers Social Security Reform Plan

Plan Uses General Treasury Funds to Save Social Security

Chairman of the Ways and Means Committee Bill Archer (R-TX) and Chairman of the Social Security Subcommittee Clay Shaw, Jr. (R-FL) have offered a plan called the Social Security Guarantee (SSG) plan.

Chairman Archer publicly invited the President to discuss the new plan's features in comparison with the President's own plan, so that progress can begin on this vital public finance issue, although at press time no such discussions had taken place.

The Archer-Shaw plan is a comprehensive example of the add-on approach to Social Security. It preserves Social Security in its current form, while providing additional funding to ensure its continued financial viability. The plan would take advantage of the superior returns offered through the private markets, while greatly restricting a contributor's ability to mismanage the funds under his or her control. (For a further assessment of the Archer-Shaw plan, please turn to the Foundation Message on page 7.)

The Creation of "Private" Accounts

In the name of every contributor to Social Security, the SSG plan would create a personal retirement account to be managed by the contributor through government-approved mutual funds. The funds would be required to invest 60 percent of contributions in stocks and 40 percent in corporate bonds.

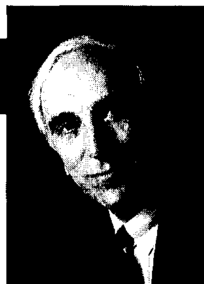
The money deposited in these new accounts would come out of general tax revenue, not out of Social Security tax revenue, and the annual contribution to each taxpayer's fund would equal two percent of that taxpayer's wages up to the Social Security earnings limit, $72,600 in 1999. Participants could not make withdrawals under any circumstances but would be permitted to switch mutual funds once a year.

What Happens at Retirement

When a participant retires or becomes disabled, the amount in the private account would be annuitized by the government. This is somewhat similar to buying an annuity from a life insurance company: a lump sum is converted to a monthly income stream over the expected lifetime of the purchaser. However, there's no shopping around—the account must be transferred to the main Social Security trust fund and annuitized by the Social Security Administration, using rules established in law rather than the private sector valuation techniques that a life insurance company would use.

Social Security *continued on page 6*

FRONT & CENTER



A Tax Credit is the Best Way to Modernize Local Public Schools

Senator Frank R. Lautenberg (D-NJ)

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A Surprise for Taxpayers in Some "Low Tax" States

Minus the Federal Taxes, They're Actually "High Tax" States

A closer look at the Tax Foundation's 1999 analysis of total tax burdens by state contains a surprise: Many states with high overall tax burdens, relative to other states, actually rank fairly low when judged by their state and local taxes alone — and vice versa.

As the table below shows, while the total average tax rate for residents of Connecticut (38.65%) is the highest in the nation, Hawaiians have the highest average tax rate when federal taxes are stripped out. The Aloha State's state and local average tax rate (14.41%) edges out New York's (14.15%) and Maine's (13.84%) for the dubious distinction of having the highest state/local tax burden.

By removing federal taxes from the mix, Connecticut falls from highest in the nation to 17th highest for state/local taxes. Five states fall even further in the ranking. Wyoming drops all the way from 14th to 50th, and Nevada falls from 8th to 43rd. Massachusetts drops 24 slots from 13th highest in total taxes to 37th highest state/local. Florida drops from 9th to 32nd, and Illinois drops from 11th to 28th.

On the other hand, West Virginia, ranked No. 48th on total tax load, comes in at No. 20 when its residents are measured solely by their state and local taxes as a percentage of income. Mississippi moves from a low total ranking of 37th highest to 13th highest for state/local. Kentucky moves from 38th to 15th, and Iowa moves from 33rd to 11th.

The reason for the dramatic change in the fortunes of some states' residents: Federal income taxes place such a proportionately greater burden on America's affluent that when these taxes are removed from the calculation, less affluent states with relatively high combined state-and-local taxes soar toward the top of the list.

Average State/Local and Total Tax Rates by State, 1999

	State/Local Taxes as % of Income	State/ Local Rank	Total Taxes Taxes as of Income	Total Rank
Total	11.33%		35.66%	
Hawaii	14.41%	1	35.66%	16
New York	14.15%	2	38.64%	2
Maine	13.84%	3	36.31%	10
Wisconsin	13.77%	4	37.72%	4
Minnesota	13.19%	5	38.52%	3
Rhode Island	12.51%	6	36.07%	12
New Mexico	12.19%	7	35.20%	20
Washington	12.06%	8	37.33%	6
Nebraska	11.71%	9	35.02%	23
Idaho	11.65%	10	34.85%	26
Iowa	11.61%	11	34.10%	33
New Jersey	11.59%	12	37.58%	5
Mississippi	11.55%	13	33.91%	37
Ohio	11.55%	14	35.40%	18
Kentucky	11.51%	15	33.86%	38
Michigan	11.43%	16	36.65%	7
Connecticut	11.36%	17	38.65%	1
California	11.31%	18	35.77%	15
Vermont	11.30%	19	35.08%	21
West Virginia	11.24%	20	32.79%	48
Utah	11.23%	21	34.71%	27
Louisiana	11.21%	22	34.27%	32
Oregon	11.16%	23	35.01%	24
Indiana	11.14%	24	34.98%	25
Montana	11.12%	25	33.98%	35
Maryland	11.09%	26	35.42%	17
South Carolina	11.06%	27	34.40%	30
Illinois	11.05%	28	36.27%	11
Oklahoma	11.04%	29	33.17%	45
Pennsylvania	11.01%	30	35.06%	22
Kansas	10.88%	31	34.61%	29
Florida	10.88%	32	36.50%	9
Arizona	10.83%	33	35.40%	19
Arkansas	10.75%	34	32.75%	49
South Dakota	10.74%	35	33.19%	44
Georgia	10.72%	36	34.70%	28
Massachusetts	10.63%	37	36.01%	13
North Carolina	10.58%	38	33.68%	40
Missouri	10.49%	39	34.00%	34
Virginia	10.43%	40	34.38%	31
Texas	10.27%	41	33.92%	36
North Dakota	9.92%	42	33.38%	43
Nevada	9.91%	43	36.55%	8
Delaware	9.91%	44	33.53%	41
Alabama	9.73%	45	32.73%	50
Colorado	9.65%	46	33.85%	39
Tennessee	9.45%	47	33.47%	42
New Hampshire	7.66%	48	33.03%	46
Alaska	7.61%	49	32.92%	47
Wyoming	7.29%	50	35.94%	14
District of Columbia	14.85%	–	39.17%	–

Source: Tax Foundation.

New Hike in "Universal Service" Tax Will Hit Low- and Middle-Income Taxpayers, According to New Tax Foundation Research

Almost three quarters of the FCC's proposed tax hike on long distance phone calls will fall on individuals with adjusted gross incomes of less than $75,000, and the bulk of that will hit individuals making less than $25,000, according to new Tax Foundation research (see table and chart).

The rate hike was proposed on May 5, 1999, by Federal Communications Commission Chairman William Kennard. Revenue from the existing tax will raise $1.3 billion to buy internet hardware for the nation's schools and libraries. If approved by the FCC's full board, the rate hike would almost double the expected revenue to $2.25 billion.

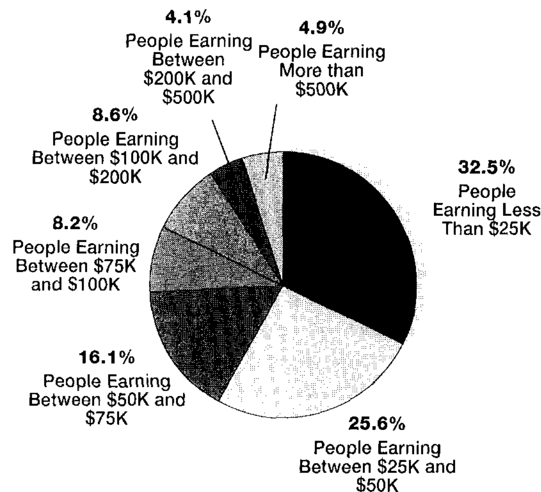
Taxpayers in the under-$25,000 group bear 32.5 percent of the tax and would pay an additional $308.4 million. People in the $25,000-$50,000 range pay 25.6 percent of the tax and would have to pay $243.2 million more. People making $50,000-$75,000 pay 16.1 percent of the tax and would pay $153.1 million more.

People in the top four income ranges would also pay more in taxes, but their share of the increased tax burden is much smaller. Altogether, they would pay just 26.0 percent of the increased tax burden.

The regressive nature of this tax means that low- and moderate-income families are shouldering much of the cost of wiring the nation's schools and libraries to the internet.

For more information on the income distribution of excise taxes in general and telecommunications taxes in particular, see Tax Foundation Background Paper No. 29, *Federal Excise Taxes and the Distribution of Taxes Under Tax Reform* by J. Scott Moody, published in January 1999.

Which Income Class Will Pay for the New "Universal Service" Taxes Imposed by the FCC?



Income Range (Adjusted Gross)	1998 Collections ($Millions)	Proposed Increase ($Millions)	Proposed 1999 Total ($Millions)	Percentage Paid
Less than $25K	422.0	308.4	730.4	32.5%
$25K - $50K	332.8	243.2	576.0	25.6%
$50K - $75K	209.5	153.1	362.6	16.1%
$75K - $100K	106.8	78.1	184.9	8.2%
$100K - $200K	111.8	81.7	193.6	8.6%
$200K - $500K	53.4	39.0	92.4	4.1%
More than $500K	63.6	46.5	110.1	4.9%

Source: Tax Foundation

New Series of Tax Foundation Papers Examines the Entrepreneurial Activities of Government-Sponsored Enterprises

A new series of Tax Foundation Special Briefs will examine the role of government-sponsored enterprises in the U.S. economy. These organizations, created by government but not funded through congressional appropriations, have been granted many special privileges, including tax-exempt status.

The common justification for establishing these enterprises is the perceived failure of the private sector to meet a market need. The rationale for granting them tax-exempt status is that they could not perform their government-mandated function and be economically viable without it. Therefore, they avoid federal income tax on their net incomes, if any, and frequently escape other taxes such as local sales taxes on their purchases.

Government-sponsored enterprises run the gamut from credit unions providing retail financial services to power companies providing electricity. Increasingly, these organizations are leveraging their special advantages to break into new markets and compete with private companies. Their growth threatens the profitability of many private companies, and their tax exemption may soon become one of the largest business tax loopholes in the federal income tax, eroding the tax base.

The first Tax Foundation Special Brief in this series will focus on the largest and most famous of these organizations, the United States Postal Service. Entitled *Reverse Privatization: The Expanding U.S. Postal Service* and authored by Tax Foundation Chief Economist J.D. Foster, Ph.D., the paper will examine the tax policy implications of the "new" Postal Service.

In recent years the Postal Service has transformed itself from a slow-moving financial disaster to what is for a Federal governmental entity a relatively efficient, profitable, and enormous enterprise. If the Postal Service were a company, then by revenues it would have ranked as the tenth largest in the country ($56 billion) in 1996.

As its organizational mentality has shifted to that of a private company, the Postal Service seems much more aware of market dynamics and is much more focused on consumer satisfaction. One troublesome aspect of this positive change, however, is a growing desire to expand into new lines of business where private companies are already active.

This strategy by the Postal Service raises an important question for tax policy makers about the propriety of a governmental entity competing with private companies.

A Tax Credit is the Best Way to Modernize Local Public Schools

U.S. Senator Frank R. Lautenberg (D-NJ)

Most members of Congress and the President support some form of tax relief. There's near unanimity on that score. However, there are significant differences over how to cut taxes and over whether to wait for Social Security reform before we cut taxes.

But those differences don't necessarily point towards an impasse. There is some common ground. Members of Congress in both parties want to reserve Social Security surpluses for debt reduction until they are needed to pay future benefits. Since we do not yet have an on-budget surplus — a surplus in the non-Social Security portion of the budget — there is a consensus that any tax relief we pass for the next year or two must be offset.

I believe we should act on that consensus and do what we can to provide tax relief now. After all, we do not know for sure when we will have an on-budget surplus, let alone one large enough to finance broader tax relief.

Acting now, because of the difficulty in finding offsets, does limit the scope of what we can do. But we have needs that shouldn't wait. For example, a number of tax provisions that have widespread support will soon expire if we don't act. Another priority we can and should address as soon as possible is the need to modernize our schools for the twenty-first century.

To address this concern, I have introduced S. 223, the Public School Modernization Act. This legislation would provide bondholders with federal tax credits in place of the traditional interest payments made by states or school districts. The legislation would create nearly $25 billion in bond authority for school renovation and new construction.

If we are serious about improving education and helping school districts at the local level, then we must pledge to aid local school districts with one of the biggest problems they are facing: crumbling school facilities. Unfortunately, in too many school districts, facilities are not ready for the twenty-first century.

We know the condition of these buildings has a direct impact on learning. A Georgetown University study revealed that the achievement levels of students taught in substandard educational facilities were 11 percent lower than those of students in modern facilities. Similarly, a 1996 Virginia study also found an 11 percentile point difference between students in substandard buildings and those in modern facilities. Both of these studies were controlled for other variables, such as the students' socioeconomic status. This data and numerous studies like it allow us to formulate a simple equation: Modern Schools Equal Better Learning.

Unfortunately, too many of our nation's school buildings have fallen into disrepair. A 1995 General Accounting Office report revealed that one third of all schools, serving 14 million students, need extensive repair or replacement. In addition, the GAO Report found that 7 million students attend school every day in a building with life-

The Public School Modernization Act of 1999

S.223, 106th Congress

Introduced by Sen. Frank R. Lautenberg

The Public School Modernization Act will provide at total of nearly $25 billion in interest-free bond authority to school districts to finance the building and renovation of public schools. Bondholders would receive a federal tax credit rather than interest owed by the school districts.

This financial benefit to school districts will free up more local funds for teaching and learning and will not interfere in local control of education. The proposal will cost the federal government $3.1 billion over 5 years. Two types of bonds will be offered:

Qualified School Construction

Twenty-two billion dollars in zero-interest, 15-year bonds for school construction and renovation will be distributed as follows to states, territories and certain school districts which have submitted construction plans:

♦ 65 percent allocated to states and territories in proportion to each state's share of funds under the Title I Basic Grant formula. School districts would be provided assistance in accordance with each state's school construction plan.

♦ 35 percent to the 100 school districts with the largest number of low-income children, in proportion to their share of funds under the Title I Basic Grant formula. In addition, up to 25 additional school districts could receive these allocations if they have a particularly low level of resources for construction or they face especially high enrollment growth.

Qualified Zone Academy Bonds

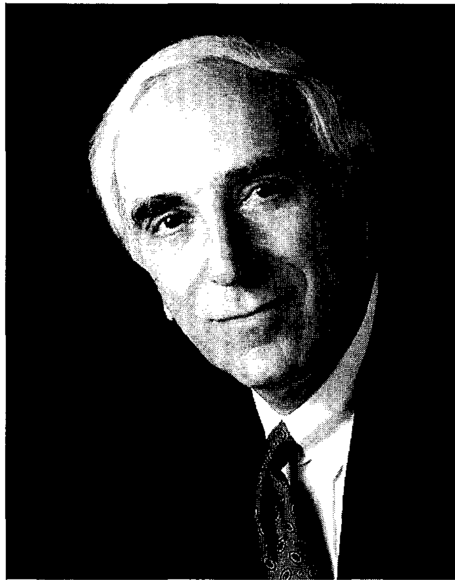
The remainder of the bond authority will go to an existing program, the Qualified Zone Academy Bonds, created by the Taxpayer Relief Act of 1997, which provides a tax credit in lieu of interest on bonds for a variety of expenses related to public school-business partnerships (including building renovation.) The Public School Modernization Act will expand these bonds to cover school construction and expand the bonds' term to 15 years.

threatening safety code violations. How can we expect our children to effectively focus on their lessons in such an environment?

This is by no means simply a problem in our large cities. The GAO Report tells us that nationwide, 29 percent of suburban schools and 30 percent of rural schools have at least one building in need of extensive repair or complete replacement. In my home state of New Jersey, inadequate and overcrowded school facilities are very much a suburban problem. For example, suburban Montgomery Township has seen its enrollment grow by 99.6 percent over the last 6 years. Another suburban district, South Brunswick, has seen enrollment grow by 60 percent in the past five years. One South Brunswick student, sixth grader Amy Wolf, told me that the overcrowding of facilities has prevented teachers from working on a "one to one" basis with students.

This overcrowding often costs students their normal recreation area. Former playgrounds and sports fields on many suburban school campuses are becoming classroom trailer parks because of escalating enrollment. In addition to overcrowding, a growing number of suburban schools are crumbling. Many of these facilities, built quickly in the 1950s and 1960s, are not holding up well and need extensive repair. And in older, urban schools, the condition and age of buildings is making it harder to move more computers into the classrooms or wire schools to the Internet. According to the GAO report, nearly half of all schools don't have an electrical system ready for the full-scale use of computers. In addition, 60 percent lack the conduits necessary to connect classrooms to a computer network.

So there clearly is a problem that must be dealt with. The question is: what should Congress do about this problem?



The Public School Modernization Act, provides what I believe to be the most effective and appropriate role the federal government can play in this crisis. It presents school districts all over the country with a unique opportunity to renovate existing buildings and build new schoolhouses from the ground up. The bill will provide special bond authority to school districts allowing them to raise the necessary funds for school modernization by offering federal tax credits to bondholders in lieu of traditional interest payments by states or school districts.

To improve education we must pledge to aid local school districts with one of the biggest problems they are facing: crumbling school facilities.

The low-cost feature for school districts is a simple concept. The districts will not be obligated to pay interest to the bondholders. Rather, the bondholders would receive a federal tax credit equivalent to interest payments.

These savings will free up local school district funds for teaching and learning. The savings could also result in significant property tax relief for the community. In addition, this federal legislation will not interfere with local control of education. The Public School Modernization Act offers opportunity to school districts — not continuous federal oversight or federal agency sign-off for every project. The act simply requires states and school districts to conduct a survey of their school facility needs and make sure that the bonding authority is distributed in such a way that schools with the greatest needs and fewest resources do indeed benefit from the program.

This proposal would provide an excellent return on our federal investment. The Joint Committee on Taxation recently released an analysis which shows that our $3.1 billion investment over five years will result in nearly $25 billion in bonding authority to build and renovate schools!

If there is anything the federal government must do to help our nation's public education, this is it. It is in the national interest to provide a better foundation for our local schools to build on. Congress should invest in the infrastructure of our nation's public schools. And this is not the first call to do so.

Forty-four years ago, the year was 1955 and the President was Dwight D. Eisenhower. In his State of the Union Address that year, President Eisenhower called for a $1.1 billion dollar program of federal aid for school construction. In today's dollars that would be over $9 billion dollars when adjusted for increases in school construction costs. President Eisenhower said the following about school construction, and I quote: "Without impairing in any way the responsibilities of our states, localities, communities or families, the federal government can and should serve as an effective catalyst in dealing with this problem."

We should realize President Eisenhower's vision and commit to giving our children modern schools for modern learning.

The Tax Foundation invites a national leader to provide a "Front and Center" column each month in Tax Features. *The views expressed are not necessarily those of the Tax Foundation.*

Social Security *from page 1*

Once the monthly annuity generated by the Archer-Shaw account is calculated, it is compared to the monthly amount that the contributor would have expected under the traditional Social Security benefit formula. If the annuity is less than that, the government will make up the difference out of the "public" account, that is, the traditional Social Security trust fund that will continue to be filled up by FICA taxes withheld from workers' paychecks at the rate of 12.4 percent (6.2 percent each for worker and employer). If the private account has more than the calculated Social Security benefit, the retiree gets the full private funds.

However, virtually all future beneficiaries would need additional funds from the old Social Security trust fund to supplement their SSG accounts. In other words, they will receive in benefit payments exactly what they are expecting to receive from Social Security under current law.

Even single workers with very high earnings, close to or above the Social Security maximum taxable amount throughout their careers, would only have transfers from their SSG accounts greater than current law benefits if the investment return during their working years exceeded the long-range average return used in these estimates.

Investment Returns

Naturally, the estimates of how much money will accumulate in the private accounts depend in part on the rate of return on stocks and bonds. Yield on stocks is assumed to be 7 percent (the average since 1900), and the yield on long-term corporate bonds is assumed to average 3.5 percent, or 0.5 percent higher than the 3.0 percent yield for U.S. Government long-term securities.

Archer-Shaw argues that this spread between corporate and government bonds is consistent with the past 40 or 70 years' experience, on average, though the spread has been smaller over the past 20 years. The expected ultimate real portfolio yield would thus be 5.35 percent, after administrative expense, which would be limited to 25 basis points.

Does the Plan Make Social Security Solvent?

According to actuaries at the Social Security Administration, enactment of this proposal would eliminate the Social Security program's estimated long-range deficit which is equivalent to 2.07 percent of taxable payroll under present law.

The Social Security trust fund as a percentage of annual Social Security outgo (the trust fund ratio) would remain positive for at least 75 years, thus allowing timely payment of benefits through 2073. The actuaries also predict that the amounts of money transferring from the private accounts to the Social Security trust fund would become large enough in 2050 to cut the FICA tax from 12.4 to 9.9 percent, and then again to 8.9 percent in 2060. Even with these reductions in the payroll tax rate, Social Security's actuaries expect the trust fund ratio to be stable at about 240 percent of annual outgo in 75 years.

Virtually all future beneficiaries would need additional funds from the old Social Security trust fund to supplement their SSG accounts. In other words, they will receive in benefit payments exactly what they are expecting under current law.

Sensitivity to SSG Account Investment Yields

Since returns on all investments are uncertain, it is possible that investment yields on the SSG accounts will differ from the long-range assumption. For this reason it is important to consider the results for the program if yields are higher or lower than expected.

If the average yield on SSG accounts is assumed to be one percentage point higher than expected, the combined Social Security payroll tax rate could be reduced from 12.4 percent to 9.4 percent for 2040 to 2049, 6.4 percent for 2050 to 2059, and 4.4 percent for 2060 and later. Even with these reductions in the payroll tax rate, the trust fund ratio would be expected to be stable at about 300 percent in 75 years, and the actuarial balance would be positive at 0.07 percent of payroll.

If the average yield on SSG accounts is assumed to be one percentage point lower than expected, the Social Security trust fund ratio would become exhausted in 2048. However, the program's actuarial balance would still be improved by an amount equivalent to about 1.98 percent of taxable payroll under this assumption, leaving an actuarial deficit of only 0.08 percent of payroll.

Miscellaneous Rule Changes

The estate of a deceased worker gets nothing from Social Security under the current system, but under the SSG plan, the estates of workers who die without eligible survivors and before collecting any Social Security benefits would receive the private fund tax free. Another rule change under the SSG plan is the gradual elimination of the Social Security retirement earnings test between 2001 and 2006.

Effects on the Unified Budget

Under the SSG plan with the intermediate yield assumption, amounts transferred from the SSG accounts to the Social Security trust funds would at first be small, but would exceed credits to the SSG accounts from the General Fund of the Treasury by about 2031. Including the relatively small effects of the elimination of the earnings test at ages 62 and above, the estimated change in the unified budget "cash flow" (excluding interest effects) would also be negative until 2031. Including the cumulative effects of interest and the change in the Social Security payroll tax rate, the year in which the effect of the SSG plan on the unified budget annual balance would be expected to become permanently positive is 2054.

FOUNDATION MESSAGE

Archer-Shaw: Respectfully, No

J.D. Foster, Ph.D.
Executive Director & Chief Economist
Tax Foundation

Chairman Archer (R-TX) of the Ways and Means Committee, and Chairman Shaw (R-FL) of the Social Security Subcommittee have put forward a significant proposal to reform Social Security. Their goal is to enact reform in this Congress. Initial reactions to the plan have not been overly favorable. Indeed, the intensity of the attacks on the plan, especially by conservatives, is astounding, considering that it is directed at two of their own.

The Social Security program would forevermore be the third rail of American politics except for two unpleasant facts: Sometime around the year 2014 it will begin to run hundreds of billions of dollars in the red each year, and about twenty years later the "trust funds" will empty and the program will be insolvent.

The easiest solution to these problems is to increase the funding for Social Security. A sufficient increase in funding would ease the near-term deficit problem and the long-term insolvency problem. Fortunately for the taxpayers, an explicit payroll tax hike is not on the table. One option, however, would be to use some of the projected non-Social Security surpluses to pump up the trust funds. It is speculating, of course, but I suspect Chairmen Archer and Shaw would strongly oppose such an option. But this is essentially what their plan does. And that is why the plan has come under such fierce attacks from the right.

The Archer-Shaw plan is comprehensive and thoughtful, and so it is easy to become lost in its twists and turns. Its core, however, is simple if we just follow the money. The plan envisions transferring an amount of money each year equivalent to two percent of your earnings currently subject to the payroll tax. You would manage the money and invest it in private equities and bonds through heavily regulated accounts. Upon retirement, you would turn the accumulated funds over to the Social Security Administration which would calculate an annuity payment based on the total amount remitted to the government. Archer-Shaw maintains current law benefit levels. Thus, if the annuity made possible by your personal account is less than the promised benefit, which would almost always be the case, then the difference between the promised benefit and the individual account-funded annuity would be paid out of the Social Security trust fund, i.e. future payroll taxes. In short, the government gives you some money to manage on its behalf, then takes it back when you retire, funding some of your Social Security benefits out of the proceeds of the account you managed.

In short, the Archer-Shaw plan takes non-Social Security revenues and uses them to pump up the resources available to pay future Social Security benefits. This essential fact does not change by virtue of the fact you would be allowed to manage the funds for the government until you retire.

The Archer-Shaw plan refers to the funds transferred to you as a tax cut. It certainly looks like a tax cut because it is calculated as a refundable income tax credit. It is not a tax cut. Eventually, you would have to give the money back to the government. Further, the amount of money you give back reduces the amount of money the government has to pay you out of the trust funds. If we are to call the transfer to individual managers a tax cut, then the transfer back to the government of these account balances upon retirement is the greatest tax hike in history. All Archer-Shaw does is allow individuals to manage new, additional assets that will be used to fund future benefits. In other words, it uses non-payroll tax receipts to prop up Social Security.

The second great problem with Social Security today is it offers workers a terrible rate of return. Depending on the details, a worker entering the workforce will be lucky just to get his or her money back, actuarially speaking. The Archer-Shaw plan makes the situation worse. It maintains current benefits; it maintains the current payroll tax; and it increases the money, through the income tax credit, that is used to fund the promised benefits. More money (now 12.4 percent plus 2 percent of payroll) going to pay the same old benefits means an even worse rate of return to the taxpayer.

Proponents of Archer-Shaw argue that their plan increases the rate of return to your Social Security contributions. They are confused. While the assets that eventually will fund your Social Security benefits will likely earn a higher rate of return, under Archer-Shaw you never see any of that higher return — the federal government will reap the higher return in the form of reduced Social Security outlays. Your benefit levels are fixed by current law.

From a broader public policy perspective, the Archer-Shaw proposal preemptively determines much of the composition of future government spending. It takes much of the future non-Social Security surpluses and "spends" them to maintain currently promised Social Security benefits. By implication, it would prevent these surpluses from being used for real tax cuts, which is partly why conservatives are up in arms, but it would also prevent them from being used for other spending, which is why liberals are irate.

There is one, first-tier, bright-line test of whether a Social Security reform proposal merely props up or transforms the current system. That test is the source of the money. When some portion of existing payroll tax monies are to be invested by individuals in their own accounts, then Social Security is transformed from within. When the source of the money is some other tax revenue source, then, whatever other salutary provisions it might contain, the plan is ultimately a prop to maintain Social Security as we know it today. Unfortunately, the Archer-Shaw plan remains just a prop to Social Security.

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Tax Freedom Day® Goes International As Many Foreign Groups Measure Their Tax Burdens

As Washington, DC, celebrated its Tax Freedom Day® on May 23rd, later than in any state, the concept of Tax Freedom Day is becoming known in many other nations' capitals as public policy groups in foreign countries realize what an effective educational device it is.

While the basic formula for computing Tax Freedom Day in other nations would be the same as here (total taxes divided by total income), no useful comparison of tax burdens can be made between nations without a comprehensive comparison of their governments.

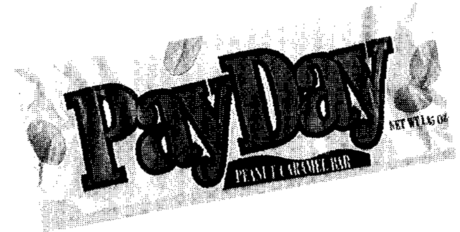
Poland and Canada are two nations where local groups calculate their nations' tax freedom. But their people have different ideas of what services government should provide, so while each nation can usefully measure its tax burden on the calendar with a Tax Freedom Day calculation, neither can compare its "tax freedom" with the other. For example, nations whose governments have government-run health care systems hire doctors and run hospitals for their entire populations. They must therefore have higher taxes, taxes that can't be usefully compared to those in nations whose people believe in a less intrusive government.

The principal barrier to the calculation of Tax Freedom Day in many nations is the accuracy and availability of data. By U.S. standards, many governments do not even have accurate data on their tax collections, much less on the total income of their economies.

Talk of Tax Freedom Day Fills the Airwaves As States Celebrate

Radio news and talk shows spread word of Tax Freedom Day around the country between April 30 and May 23, the dates of the earliest and latest state Tax Freedom Days.

Tax Foundation economists were on the air to nearly a hundred radio stations, including KOH Radio in Reno; WIBC Radio in Indianapolis; Channel 11 News in Oakland; KQV Radio in Pittsburgh; KGO Radio in San Francisco; WRVA Radio in Richmond; KOIN Radio in Lincoln; KNRS Radio in Salt Lake City; KRGO Radio in Colorado Springs; WLAC Radio in Nashville; WERC Radio in Birmingham; KOA Radio in Denver; KTOK Radio in Oklahoma City; WFTL Radio in Louisville; WBT Radio in Charlotte; WGAR Radio in Cleveland; WSYR Radio in Syracuse; KFRM Radio in Kansas City; WWDB Radio in Philadelphia; Channel 8 News in Washington, DC, and dozens more, almost a hundred in all.



Hershey Foods Corporation marked Tax Freedom Day on May 11 by inviting Americans to have a PayDay *peanut caramel bar in celebration of having finally earned enough money in 1999 to pay their taxes and start keeping their hard-earned money.*

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