

Cost of Government Day[®] Report Calendar Year 2006

Fourteenth Edition

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OVERVIEW OF RESULTS

Definition

Cost of Government Day (COGD) is the date of the calendar year on which the average American worker has earned enough gross income to pay off his or her share of spending and regulatory burdens imposed by government on the federal, state and local levels.

Cost of Government Day 2006

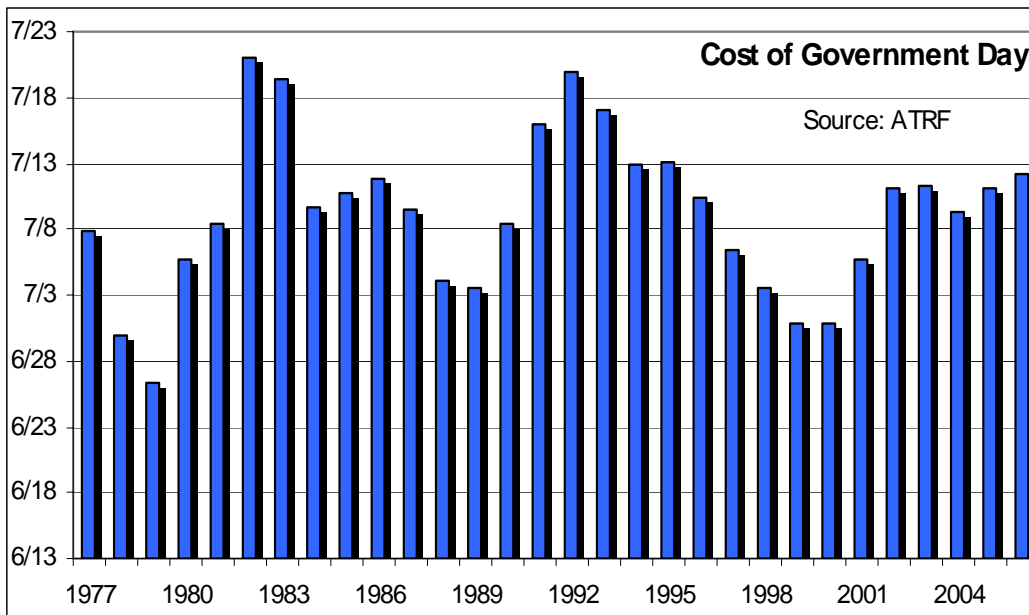
Cost of Government Day for 2006 is July 12th, a one day increase above last year's revised date of July 11th. With July 12th as the COGD, working people must toil on average 192.5 days out of the year just to meet all the costs imposed by government. In other words, the cost of government consumes 52.7 percent of national income.

Cost of Government: Trends

Cost of Government Day falls one day later in 2006 compared to 2005's date. In 2006, the average American will need to work an additional 11.8 days out of the year to pay off his or her cost of government compared to 2000. Slower economic growth, a recession, the war, increased spending and corporate scandals were responsible for the dramatic increase from June 29th in 2000 to as high as July 11th in 2003.

Consistent with historical changes in the index, as the economy began to expand the cost of government declined due to lower levels of spending and higher incomes of workers. However, the drop in the cost of government was short-lived and the index increased back to July 11th in 2005. In 2006, the cost of government increased an additional day and is now at its highest level since 1995. The increasing cost of government while the economy is expanding is unprecedented and should economic growth slow in the future, the index will increase back to the highest ranges recorded.

Cost of Government Day 1977 – 2006



Cost of Government Day: Components

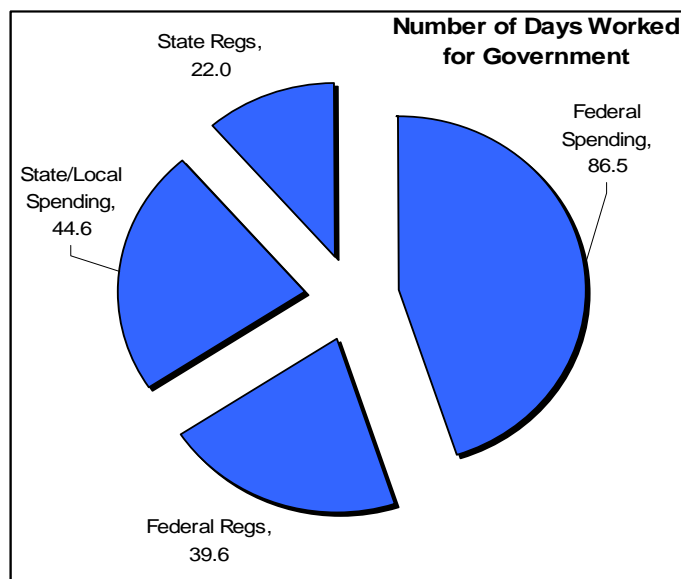
Spending continues to be the main driver in the Cost of Government index. In 2006, the average American worker will need to work an additional 9.5 days out of the year to pay for spending at all levels of government than was required in 2000. At the federal level, the average American will work an additional 8 days this year than was required in 2000, while that same person will work 1.5 days more out of the year to pay for state and local spending.

For 2006, federal spending as a percentage of national income will increase as new spending for the Medicare prescription drug benefit and Hurricane Katrina aid payments begin to be paid. State and local spending as a percentage of income will increase in 2006 as well. Flush with new revenues from a strong economy state and local governments have substantially increased spending this year and will increase the cost of government by 0.3 days. Taken altogether, the average American will work 131.05 days this year to pay off the cost of federal, state, and local spending and increase of 1.5 days above 2005 levels.

Regulations as a percentage of national income will remain unchanged in 2006 at 16.9 percent. This is the third year the index has remained at this level. Based on revised data on regulatory costs, however, previous COGD reports were underestimating the cost of regulations, particularly in 2001 and 2002. New regulations stemming from the War on Terrorism and corporate scandals dramatically increased the regulatory burden in 2001 and 2002. At the same time the cost of tax compliance has substantially increased. In 2006, the average American will work 61 days out of the year to pay for regulatory costs, 2.3 more days than was required in the 2000.

National income is growing quite significantly by historical standards and the fact that COGD Index continues to increase in the face of strong economic growth demonstrates without better fiscal restraint, particularly at the federal level, the COGD index has the potential to increase in future years. In fact, many economists are forecasting a slowdown in economic growth over the next year and without changes in spending and regulations we would expect the Index to jump back to levels not experienced since the early 1990's recession.

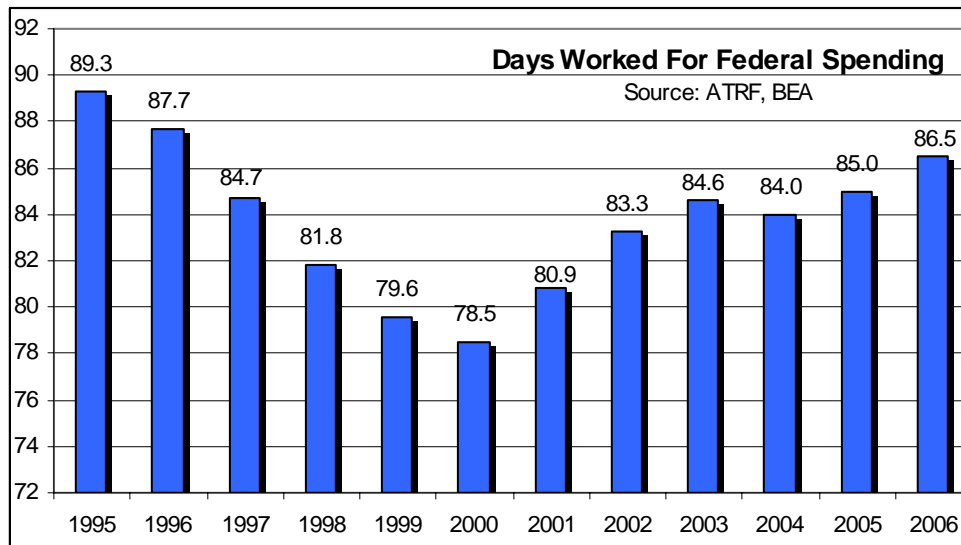
2006 Cost of Government Day Components



Federal Spending

Federal spending continues to be the single largest component of the total cost of government and has been the driving force leading to the substantial increase in the cost of government over the past six years. In 2006, ATR projects federal spending will increase the burden on American taxpayers by 1.5 additional days, from 85 to 86.5 days. As a result, the average American will need to work an additional eight days out of the year to pay for federal spending compared to 2000, a 10.2 percent increase in the burden of federal spending in that time.

Small Drop in 2004 Turned Out to Be Short-Lived, Spending Reaccelerating



Spending Drivers

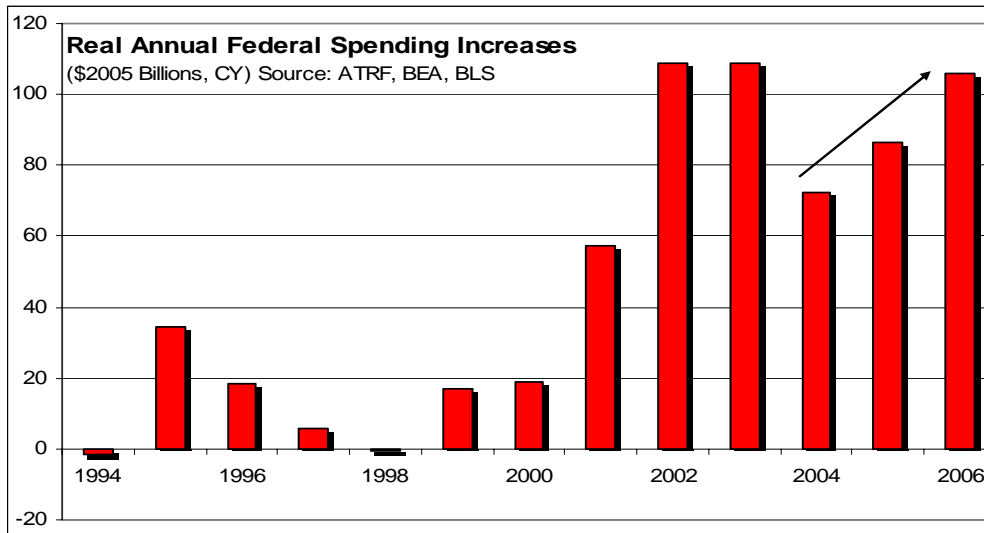
Leading this increase in spending has been acceleration across the board in all categories of spending including non-defense, non-homeland discretionary spending. Elected officials often claim that the War on Terrorism is the leading cause of spending increases. However, according to a recent Cato Institute study, under the time period of the Bush Administration, non-defense non homeland security spending is growing at the second fastest growth rate during a presidential term, 4.8 percent, since 1964. In fact, the spending growth rate exceeds Lyndon Johnson (4.1 percent) and is slightly below Nixon (5.0 percent) who created new departments under his tenure.

Spending for defense and homeland security related items do come into play due to large supplement budget bills that are being passed annually by Congress and signed into law by the President. The supplemental spending bills are considered “off-budget” and not conducted through the budget process. Thus, each year the President puts forward a spending plan which shows spending restrained in the 2.5 percent to 4.5 percent range. Over time, however, the number increases as Congress increases spending and then the supplemental costs are added to the final number.

Since fiscal year 2002, spending above the President’s initial request has equaled \$387 billion during five years. This represents 54 percent of federal spending increases enacted and demonstrates the inaccuracy of using the initial spending request to guide where spending will end up in the next fiscal year.

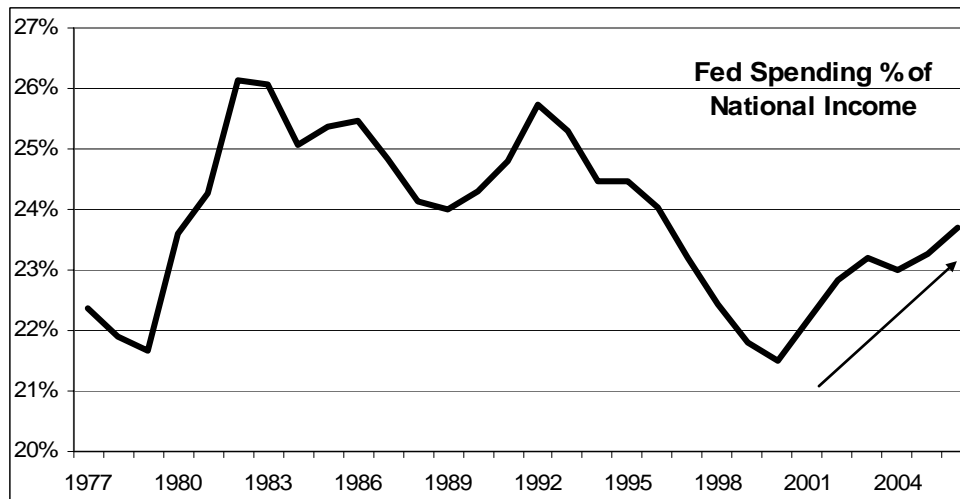
As a result, the acceleration of federal spending has been dramatic. Based on the projected 2006 numbers, the combined inflation adjusted spending increase amounts for calendar years 2001 – 2006 is a six-fold increase above the spending increases for the previous six-year period. In other words, from 1995-2000, federal government spending increased an average of \$15.7 billion per year while from 2001-2006 the federal government increased spending an average of \$90 billion per year. The difference between the two numbers reflects the average supplemental bill passed in each fiscal year, \$75 billion.

Despite Claims to the Contrary, Federal Spending Continues to Surge



The elevated levels federal spending over the past six years have wiped out 51 percent of the unprecedented reduction in the burden of federal spending as a percentage of national income from 1992-2000. Federal spending (as a percentage of income) declined for eight straight years, which reduced government spending from one out of every four dollars of national income to one out of every five dollars. By 2000, average Americans worked 15.4 days less of the year to pay off their federal spending burden than in 1992. In just the past six years, however, 51 percent of that gain has been eliminated. Accordingly, 67 percent of the total cost of government increase since 2000 is due to the increases in federal spending.

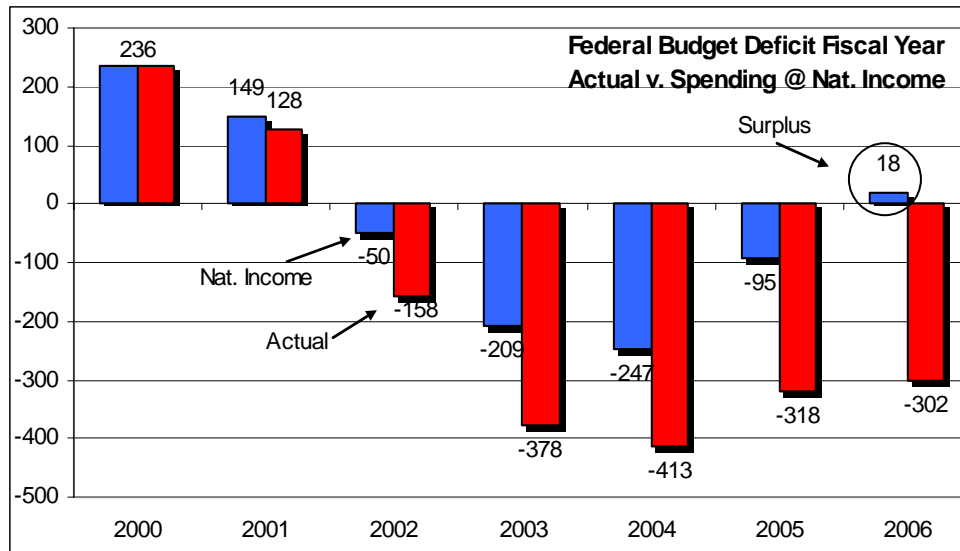
51 Percent of Spending Reductions Gains Have Been Wiped Out Since 2000



Special Focus: Spending and the Federal Budget Deficit

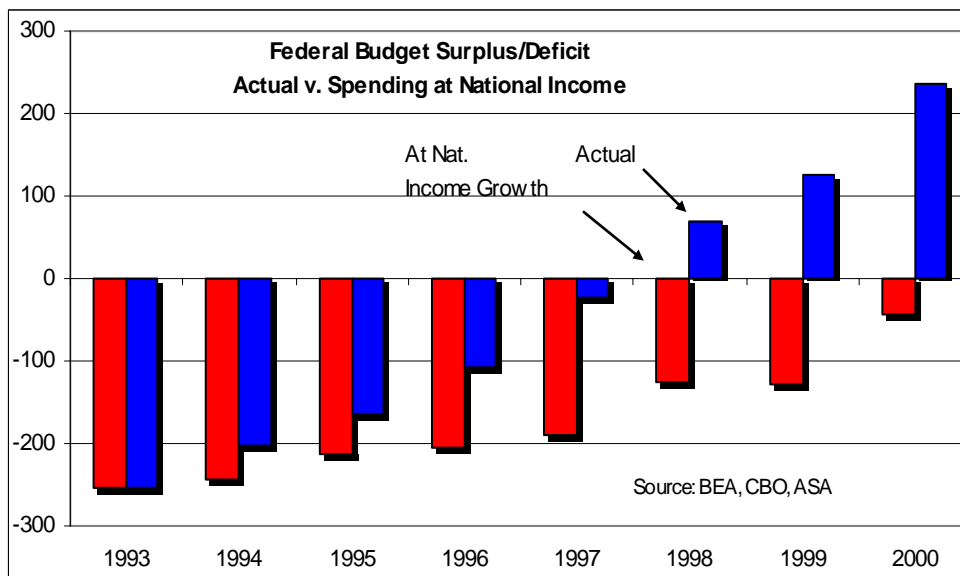
Federal spending is the main culprit driving up the federal budget deficit increasing 210 basis points per year above national income growth. As the chart below demonstrates if spending growth was held to national income growth over the past six years, the federal budget deficit would be in surplus at the end of this fiscal year rather than finishing with a \$300 billion deficit. In fact, 70 percent of the accumulated budget deficits since fiscal year 2002 is the direct result of total spending increasing above the rate of national income growth.

Federal Budget Would Be in Surplus in 2006 If Spending Was in Line With Income Growth



Yet, national income may not be the correct barometer to measure fiscal health. In the 1990's if spending had increased in line with national income growth, the budget would never have entered a surplus even with record amounts of tax revenue pouring in. The budget surplus materialized only because spending increased **below** national income growth as the chart shows.

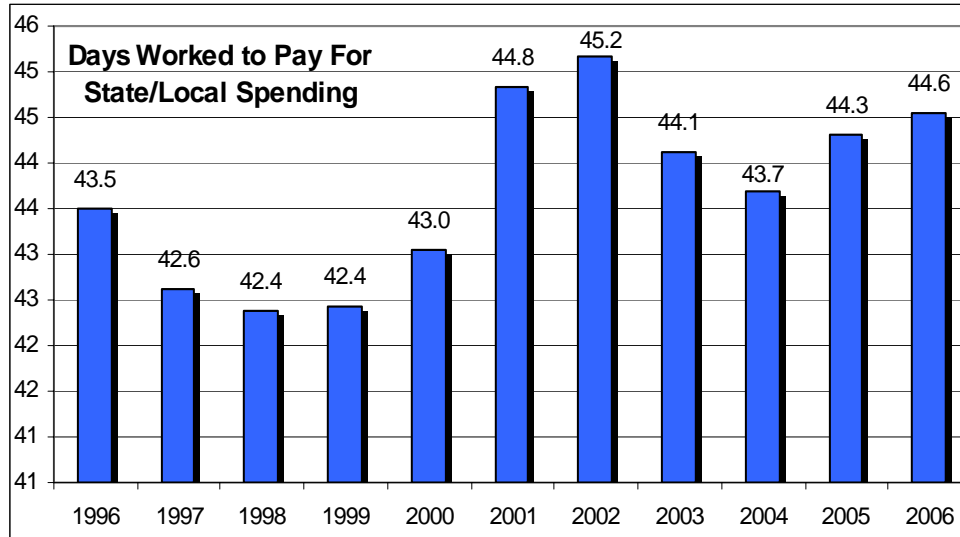
Budget Surplus Would Never Have Materialized If Spending Increased In Line With Income



State and Local Spending

This year, the average American will work 44.6 days to pay for state and local spending resulting in the second consecutive increase in as many years. Although state and local spending declined in both 2003 and 2004, the increases in 2005 and 2006 have reverted spending as a percentage of national income back to recession levels of 2001. As such, state and local spending as a percentage of national income has increased 3.7 percent since 2000. Since its low in 1998, state and local spending as a percentage of national income is up 5.2 percent.

State & Local Spending Slightly Increases, Remains Elevated



In fact, spending at the state is expected to increase in future years as well. States experienced a dramatic slowdown in tax revenues with the bursting of the stock market bubble and the ensuing recession. Federal aid was delivered as part of the 2003 federal tax cut to help states with their budget gaps which only perpetuated new spending. Since 2004 state tax revenues have exploded and states are now spending in larger amounts. At the same time, healthcare and pension costs are soaring but very little action is being taken to reform these programs and make more them more efficient. Absent significant reforms we expect spending to continue to grow above national income growth thus extending the cost of government day.

State Spending

To better gauge how states are spending their money, ATR has updated our state spending index which calculates state spending as a percentage of each state's contribution to national income. The index examines state spending plus federal aid to the state for the time period of 1998-2003.

This was an important time period for state governments. The beginning of the study period reflected the healthiest time period for state budgets as tax revenues were soaring with a strong economy and a bullish stock market. By 2001, however, revenues began to decelerate and our analysis suggests that states did not slow spending in response. In fact, many raised taxes to keep the spending on an upward track.

All but just three states (North Dakota, South Dakota, and Alaska) spent more than the growth rate of their state's economy during this time period. Ohio increased spending relative to the state's economy more than any other state in the country. Gov. Bob Taft (R) raised taxes significantly and with that came increased spending. The second highest state was California under former Gov. Gray Davis' (D) leadership, nearly bankrupted the state.

South Carolina, which increased spending more than any other state from 1998-2002, dropped back to fifth place. The large increase in spending was the direct result of the state introducing a lottery in 2000 which sent spending from 15.8 percent of the state's income to 19 percent. It is becoming quite apparent that states with lotteries do not save taxpayers' money as supporters claim but rather increases spending and further burden taxpayers. Interestingly, the state which spends the most relative to their economy is Alaska, which requires more than 100 days of work (double the national average). However, this is because oil revenues, paid mostly by out of state residents, finance Alaska's spending.

State Spending as a Percentage of National Income CY 1998-2003

State	Percent Change in Spending Relative to State Contribution to National Income: 1998-2003	Days Worked	State	Percent Change in Spending Relative to State Contribution to National Income: 1998-2003	Days Worked
Ohio	24.7%	58.6	Washington	12.1%	55.6
California	24.4%	59.3	Indiana	12.1%	45.8
New Hampshire	24.1%	46.3	Nebraska	11.9%	43.6
Vermont	23.6%	77.4	Rhode Island	11.9%	64.5
South Carolina	22.9%	68.2	New Mexico	11.2%	77.4
Kentucky	21.9%	63.8	Colorado	10.7%	38.8
Mississippi	21.7%	78.6	Alabama	10.5%	59.7
West Virginia	19.3%	87.3	Texas	10.3%	38.0
Georgia	19.1%	43.0	Maryland	10.1%	47.7
Arkansas	18.8%	67.1	Iowa	9.2%	53.1
Illinois	18.2%	42.1	North Carolina	8.8%	47.5
Minnesota	18.2%	56.5	Utah	8.5%	56.6
Maine	17.0%	71.5	Idaho	8.4%	59.5
Wisconsin	16.8%	58.7	Florida	6.6%	42.8
Michigan	16.3%	58.5	Delaware	6.4%	43.6
New Jersey	16.1%	48.2	Montana	5.9%	73.4
New York	16.1%	63.0	Wyoming	5.1%	64.4
Connecticut	14.0%	48.4	Hawaii	3.4%	68.3
Missouri	14.0%	45.7	Nevada	2.9%	38.0
Kansas	13.1%	48.8	Massachusetts	2.9%	49.2
Tennessee	13.0%	43.9	Virginia	1.9%	40.4
Arizona	13.0%	46.4	Louisiana	1.9%	54.9
Oregon	12.6%	62.6	Alaska	-1.0%	105.5
Oklahoma	12.6%	59.3	South Dakota	-1.4%	44.0
Pennsylvania	12.3%	53.5	North Dakota	-3.3%	59.6

State Tax Increases

Given that most states increased taxes to continue spending during the economic downturn ATR has also compiled a list of state tax increases by state for the past six years. ATR made two adjustments to the data from the National Governor's Association. First, we compounded the tax increases to reflect tax increases made in 2002 which have to be paid in the successive years. Second, we adjusted each state by population to have a better comparison across states.

New Jersey led all states with tax increases by an overwhelming margin. The more than \$17 billion of state tax increases totaled \$1,951 per resident. Nevada, Connecticut, and Ohio also increased taxes by more than \$1,000 per resident in fiscal years 2002-2007. However, it should be noted, the difference between the highest tax state, New Jersey, and the second highest tax state is 75 percent, indicating that the tax increases in New Jersey were excessive.

These tax increases have also come at a time when the federal government has nearly doubled its aid to state and local governments. The 11 percent growth of federal aid per year during this time period further suggests that states continue to raise taxes to match their overspending pattern.

Six states reduced taxes during this time led by Idaho and followed by Hawaii, Florida, Wyoming, and Louisiana. In addition, a number of states such as Oklahoma and Rhode Island cut taxes in the current fiscal year and we expect more in the next fiscal year.

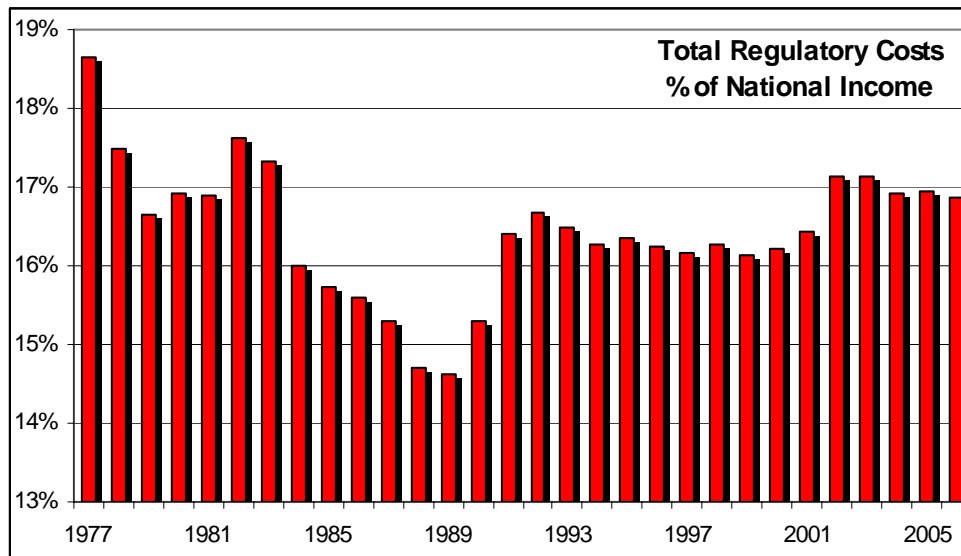
State Tax Increases Compounded Per Capita FY 2002-FY 2007

State	Total \$ Amount	Per Capita	State	Total \$ Amount	Per Capita
New Jersey	17,009,900,000	1951.14	North Dakota	106,800,000	167.75
Nevada	2,681,200,000	1110.32	Washington	878,200,000	139.67
Connecticut	3,840,400,000	1094.04	Oklahoma	493,200,000	139.01
Ohio	12,421,800,000	1083.54	Alabama	484,800,000	106.37
New York	18,368,300,000	953.97	Wisconsin	578,600,000	104.51
Rhode Island	972,700,000	903.84	South Carolina	442,600,000	104.02
Alaska	554,900,000	836.12	Montana	85,600,000	91.49
Indiana	5,142,200,000	819.87	Kentucky	361,200,000	86.55
Tennessee	4,655,000,000	780.65	Utah	182,900,000	74.06
Delaware	574,200,000	680.72	Colorado	317,600,000	68.08
Minnesota	3,383,900,000	659.27	South Dakota	51,000,000	65.73
North Carolina	5,067,900,000	583.64	Georgia	418,200,000	46.09
Oregon	2,083,200,000	572.14	Pennsylvania	541,900,000	43.60
Vermont	347,700,000	558.06	Missouri	230,900,000	39.81
Kansas	1,430,300,000	521.12	California	1,144,700,000	31.68
Massachusetts	3,124,600,000	488.31	West Virginia	43,000,000	23.67
Illinois	5,709,000,000	447.30	Texas	124,100,000	5.43
New Hampshire	471,000,000	359.56	Mississippi	10,000,000	3.42
Virginia	2,713,600,000	358.59	Iowa	3,100,000	1.05
Nebraska	559,300,000	318.00	Arizona	-1,600,000	-0.27
Michigan	2,891,200,000	285.67	Louisiana	-51,900,000	-11.47
Maryland	1,504,900,000	268.71	Wyoming	-51,600,000	-101.32
New Mexico	501,400,000	260.01	Florida	-3,130,400,000	-175.97
Maine	343,300,000	259.78	Hawaii	-265,300,000	-208.05
Arkansas	467,600,000	168.25	Idaho	-300,900,000	-210.55

REGULATION

Regulations as a percent of national income slightly decreased in 2006 and have remained unchanged at 16.9 percent since 2004. Despite the stabilization of regulatory costs, regulations remain elevated following a substantial increase in 2002. In 2006, the average American will have to work 61.5 days out of the year to pay for all regulations. In the broader picture, 2006 regulatory costs as a percentage of national income are 3.9 percent higher in 2006 compared to 2000.

Total Regulatory Burden 1977-2006



The elevated status of regulatory costs poses a significant problem for American taxpayers for several reasons.

1) Regulatory costs are generally invisible to the average shareholder and consumer and thus much harder to identify the true cost of these actions; 2) Regulatory bureaucracies have been armed with free reign to regulate following the corporate scandals in 2002 and show no sign of letting up; 3) New regulations have created new constituencies which benefit from these regulations and will vigorously lobby to keep the regulations in place; and 4) Lack of political will to reign in the regulatory growth indicates this process will continue into the next few years.

The surge of regulatory costs over the past few years has had a pronounced effect on financial markets which is stifling economic growth. Companies are being forced to divert resources away from new investment just to comply with the surge of new regulations. In fact, from 1981-1999 regulatory costs were reduced from 25 percent of market capitalization to just 5 percent. The lower regulatory burden unlocked capital funding for companies to make investments, hire workers, increases wages and lower costs to consumers thus growing the economy.

Coupled with lower taxes and less federal spending as percentages of the economy, it is quite apparent the three variables combined played a role in the creation of \$17 trillion of shareholder wealth (inflation adjusted) during this time period. Shareholder wealth increased an average of 12 percent per year during this time.

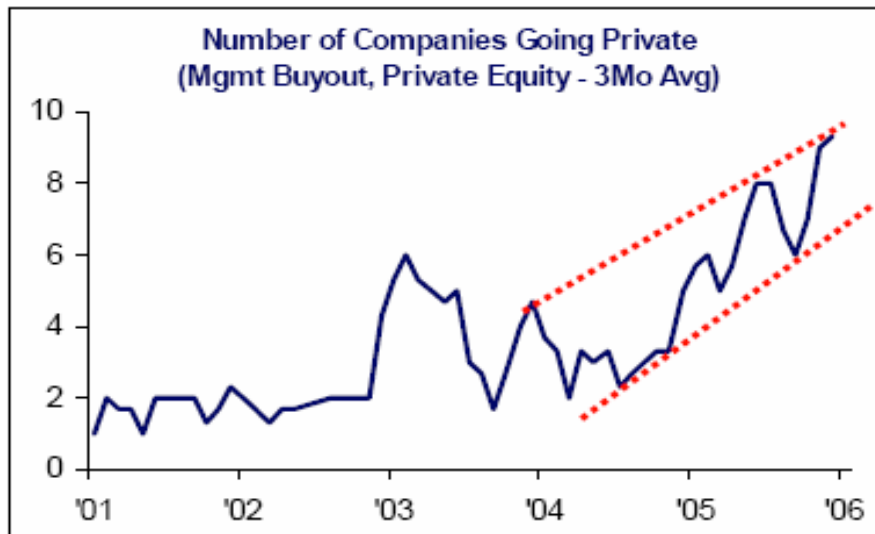
Yet, the regulatory burden doubled from 1999-2002 from 5 percent to 10 percent of market capitalization, a clear drain on economy. Moreover, the burden has only been reduced slightly and ended 2005 at 8 percent of market capitalization.

The prime culprit is Sarbanes-Oxley designed to clamp down on wrong doing by corporate leaders. The problem, however, was that out of the more than 13,000 companies reporting to the Securities and Exchange Commission, less than 20 companies were found to be fudging numbers.

Instead of stepping up enforcement efforts, the new legislation placed an onerous burden on productive companies, which has forced them to waste productive resources monitoring their activities rather than spending on new investment and job creation. The new internal controls being forced on companies have been found to use up 35,000 hours of internal manpower and to increase compliance costs for large companies by \$4.6 million.

The burden has become so severe that a new paradigm in corporate finance is taking place in which companies are going private. As the chart below from International Strategy and Investment Group demonstrates the number of companies going private jumped significantly as Sarbanes-Oxley was implemented, largely small publicly traded companies which could not afford the new costs. And this process has continued, actually accelerating since 2004.

Sarbanes-Oxley Significantly Increased the Number of Companies Going Private



ATR's conservative estimate of regulatory costs includes only the cost of complying with regulations. This includes the material resources and labor needed to carry out compliance with this regulatory requirement. For example, if a regulation requires new pollution control equipment for power plants, compliance costs include the costs of manufacturing, installing, operating and maintaining the equipment.

This estimate ignores the negative economic effects of the costs of regulatory requirements. These hidden costs slow the economy, as they introduce inefficiencies and distortions, and reduce the economic reward left over for productive activity. The regulations may prevent new firms from entering the market, or stop existing ones from expanding. They may even force some existing

firms out. The end result is less overall output, fewer jobs, lower wages and lower economic growth.

These economic costs may be as large as the direct compliance costs of regulation. Economists at Washington University at St. Louis, leaders in the study of regulation, have estimated these costs to be over \$1.5 trillion per year in current dollars. The full, true burden of regulatory costs may consequently be twice as large as estimated above. This makes reform to reduce regulatory costs twice as urgent.

STATE-BY-STATE BREAKDOWN

Below is the Cost of Government Day for each state based on the varying government burdens that apply to each state. Federal spending burdens vary because relatively higher burdens are borne by states with relatively higher incomes. Of course, state and local spending burdens vary by state as well.

The highest state Cost of Government Day by far is in Connecticut. The day there falls 18 days later than the rest of the country, coming on July 30th. This is 3 days later than Cost of Government Day for the second highest state, New York, which has been increasing over the past few years.

The third highest Cost of Government Day state New Jersey is followed by Washington, Minnesota and Massachusetts.

State	# Of Days Worked For Government	2006 Cost of Government Day	Rank in 2006
United States	192.5	12-Jul	--
Alabama	175.63	25-Jun	1
Alaska	176.59	26-Jun	2
Mississippi	177.98	27-Jun	3
Tennessee	178.98	28-Jun	4
Oklahoma	179.04	29-Jun	5
New Mexico	180.20	30-Jun	6
South Dakota	181.27	1-Jul	7
Montana	181.29	1-Jul	8
Idaho	181.35	1-Jul	9
New Hampshire	182.25	2-Jul	10
Arkansas	182.47	2-Jul	11
South Carolina	182.47	2-Jul	11
West Virginia	182.49	2-Jul	13
Louisiana	182.53	2-Jul	14
Missouri	183.57	3-Jul	15
Iowa	183.59	3-Jul	16
Utah	183.61	3-Jul	17
Delaware	184.57	4-Jul	18
North Dakota	184.68	4-Jul	19
Texas	184.70	2-Jul	20
Kentucky	184.76	4-Jul	21
Arizona	185.82	5-Jul	22
Oregon	186.94	6-Jul	23
North Carolina	186.98	6-Jul	24

Colorado	188.05	8-Jul	25
Georgia	188.09	8-Jul	26
Indiana	188.13	8-Jul	27
Kansas	188.13	8-Jul	27
Nebraska	189.31	9-Jul	29
Virginia	190.27	10-Jul	30
Florida	190.29	10-Jul	31
Pennsylvania	190.35	10-Jul	32
Michigan	190.37	10-Jul	33
Hawaii	190.43	10-Jul	34
Vermont	191.52	11-Jul	35
Ohio	191.58	11-Jul	36
Nevada	192.52	12-Jul	37
Maryland	193.74	13-Jul	38
Wisconsin	194.93	14-Jul	39
Wyoming	195.93	15-Jul	40
California	197.11	17-Jul	41
Illinois	197.11	17-Jul	41
Rhode Island	198.28	18-Jul	43
Maine	198.44	18-Jul	44
Massachusetts	199.32	19-Jul	45
Minnesota	200.56	20-Jul	46
Washington	201.61	21-Jul	47
New Jersey	203.85	23-Jul	48
New York	207.37	27-Jul	49
Connecticut	210.63	30-Jul	50
District of Columbia	207.37	27-Jul	---