NATIONAL PROBLEMS, LOCAL SOLUTIONS: FEDERALISM AT WORK
PART II
TAX REFORM IN THE STATES

HEARINGS

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

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NATIONAL PROBLEMS, LOCAL SOLUTIONS: FEDERALISM AT WORK
PART II
TAX REFORM IN THE STATES

WEDNESDAY, APRIL, 14, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Dan Burton (chairman of the committee) presiding.

Present: Representatives Burton, Gilman, Morella, Ros-Lehtinen, McHugh, Horn, Davis of Virginia, Souder, Hutchinson, Terry, Biggert, Ose, Chenoweth, Waxman, Towns, Norton, Kucinich, and Ford.

Staff present: Kevin Binger, staff director; Barbara Comstock, chief counsel; David Kass, deputy counsel and parliamentarian; John Griffin, senior counsel; James Schumann, counsel; Mark Corolla, director of communications; John Williams, deputy communications director; Carla Martin, chief clerk; Lisa Smith-Arafune, chief deputy clerk; Nicole Petrosino, legislative aide; Phil Schiliro, minority staff director; Phil Barnett, minority chief counsel; Elizabeth Mundinger and David Sadkin, minority counsels; Ellen Rayner, minority chief clerk; and Jean Gosa, minority staff assistant.

Mr. BURTON. Good morning. A quorum being present, the Committee on Government Reform will come to order. I ask unanimous consent that all Members' and witnesses' written opening statements be included in the record, and, without objection, so ordered.

Today's hearing is the second in a series that examines the relationship between State and local governments and the Federal Government. Many of the most innovative and successful public policy reforms enacted in recent years originated at the State and local levels. Our first hearing covered the issue of crime and what States and localities are doing to fight it. Today and tomorrow, we are going to take a close look at the issue of tax reform, an appropriate issue for what is now notoriously known as tax week.

We are currently debating a number of tax cut proposals in the Congress, and we have very large projected surpluses for the next 10 years. Someone said, let us not cut taxes now. Some, like myself, think the time is right for tax relief. One of the things we have to remember when we talk about is what is the appropriate level of taxes? It is that we are not the only ones who tax the American

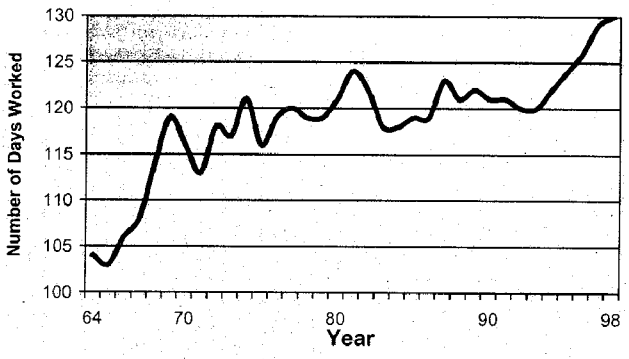
people. There are State taxes; there are local taxes. We need to look at the total tax burden on the American people. When you look at that, it is pretty high. The average family today pays more in taxes than it spends on food, clothing, shelter, and transportation combined. The average tax rate for 440,000 individuals who filed their returns in 1916 was 2.75 percent. In contrast, today's total taxes from all levels of government—Federal, State, and local—stand at a record 32 percent of national income. In fact, Federal taxes alone consume about 21 percent of national income, the highest proportion since World War II. That means one-third of every person's check goes right to the Government. Is that too much? I think so. We have a chart that shows how tax freedom day has been extended between 1964 and 1968.

[The chart referred to follows:]

America Deserves a Refund

A campaign to return the Tax Overcharge

Tax Freedom Day
1964 to 1998



Note: Tax Freedom Day denotes the number of days that the average American must work each year to pay their share of federal, state, and local taxes. (Source: The Tax Foundation.)

- **Tax Freedom Day, April 13, 1964:** In 1964, the average American worked 103 days to pay their total tax bill.
- **Tax Freedom Day, May 10, 1998:** In 1998, the average American worked 129 days to pay their total tax bill.

Office of the House Majority Leader
www.freedom.gov

Mr. BURTON. This chart shows what is known as tax freedom day has gotten and later and later over the years. According to the Tax Foundation, in 1964, the average American worked 103 days until April 13 to pay their total tax bill, including Federal, State, and local taxes. Last year, tax freedom day was May 10th. The average American worked 129 days to pay their total tax bill. My point is when we are making important decisions on Federal tax policies, we need to take the total tax burden on the American people into consideration. Moreover, we must remember that not all States are fortunate enough to have innovative Governors like the ones we have here before us today. A number of States are still faced with Governors and legislatures who have yet to understand the importance of tax relief and reform and continue to burden their citizens with tax increases and more government bureaucracy.

The committee's hearing will demonstrate how the Governors are doing their part to deal with this at the State levels, specifically, how they have reformed their respective State tax system to put more money in their citizen's pockets.

From crime to education and from welfare reform to taxes, State and local governments have led the way in reforms. For example, much of the highly successful welfare reform law we passed in the 104th Congress was taken directly from reforms first enacted by Wisconsin's Governor, Tommy Thompson, who will testify before our committee next week. President Clinton vetoed welfare reform twice, but once the law was enacted it revolutionized the welfare system across America. Also in response to the Governors and mayors, the Republican Congress curbed the practice of imposing unfunded Federal mandates which place burdensome demands on States and local governments.

Over the next several months, the committee will continue our series of hearings entitled, "National Problems, Local Solutions: Federalism at Work," by examining the issues of welfare reform and education. Through these hearings, the committee will continue to highlight successful and innovative reforms at the State and local levels, so that many of the solutions to the problems facing America come from the State and local levels and not from Washington; determine which existing Federal programs best assist cities and States, and explore new ways that the Federal Government can help State and local governments in the most cost-effective way.

Today's hearing is entitled, "Tax Reform in the States." The Governors we will hear from today have all worked hard to ensure that the citizens of their respective States keep more of their hard-earned money instead of sending it to the State House. On that point, especially, the Federal Government can learn a lot. The Governors that are going to testify today and tomorrow have set an example for the Congress and the President, because these Governors recognize that the American people know best how to spend their own money. Furthermore, these Governors are included in the ranks of many Governors nationwide who have not only given more money back to the citizens but have stimulated economic growth while maintaining critical government services.

Take Governor Mike Huckabee of Arkansas, for example, in 1997, he worked for an across-the-board tax cut for the citizens of

Arkansas. In addition, he has eliminated the State marriage tax penalties, something that we haven't done here in Congress. Governor Huckabee is now working to eliminate the State capital gains tax, something else that Congress should do. Governor Christine Todd Whitman, who is our first guest today, of New Jersey has cut every type of tax imaginable, including some taxes many people probably didn't even know they were paying, such as a tax on yellow pages advertising—I didn't know about that. Virginia Governor Jim Gilmore ran for election on and got the State legislature to pass an elimination of the car tax. He also proposed and passed tax exemptions for military personnel in order to give them a much needed financial break. And Governor Pataki of New York has also enacted tax cuts 36 times, saving the taxpayers of New York $19 billion. These Governors certainly deserve our attention.

First, this morning, we are going to hear from Governor Whitman of New Jersey, a very intelligent, articulate, and attractive young lady. According to Governor Whitman, "We are not giving anything back to the people; we are just taking less of what is already theirs." She was elected in 1993 on her commitment to make New Jersey government more responsible with taxpayers' dollars. She promised tax cuts and a more efficient government, and she has delivered. On her watch, New Jersey has added 300,000 new jobs; crime is at the lowest level it has been since 1974, and she has enacted at least 17 tax cuts.

The centerpiece of her tax reform plan has been the 30 percent cut of State income taxes. In three installments, she cut 30 percent for most New Jerseyans. In addition, she has taken care of the lowest income bracket by eliminating State income taxes altogether for 380,000 people in her State earning $7,500 or less. These are just a few of her many successes, but, most recently, Governor Whitman proposed a $1 billion school tax rebate to help further ease the tax burden of New Jersey citizens. This legislation is currently making its way through the New Jersey Legislature.

I will talk about Governor Huckabee and the other Governors, subsequently, when they appear before our committee, but, right now, before I introduce our guest, Mr. Waxman, do you have any comments?

Mr. WAXMAN. Yes, thank you very much, Mr. Chairman. I guess no one should be at all surprised that today's hearing is on taxes. It seems that every year, Republicans use the days around April 15th as a time to score political points. The chairman said that the Federal taxes are consuming the highest percentage of national income than at any time since World War II. This is not true. According to a recent analysis by the Treasury Department which looked at average income tax rates for a family of four, the average tax rate for a family earning the median income is at its lowest rates since 1965. For a family earning twice the median income, the rate is the lowest it has been in 25 years. The average income tax rate for a family earning one-half the median income is lower than any year covered by the report which goes back to 1955, and I have a chart over here which illustrates this point.

Another myth is that States deserve all the credit for tax cuts we are going to hear about today, but the reality is that it is the strong economic growth under President Clinton, the longest peace-

time expansion in history, that has made the so-called Republican tax cuts possible. Let me review some economic statistics under the Clinton administration. The U.S. economy has created 18 million new jobs in the last 6 years, over 90 percent in the private sector, which has generated billions of dollars in additional tax revenues. Today's unemployment rate of 4.2 percent is down from 7.5 percent in 1992 and has been below 5 percent for 21 consecutive months, the lowest sustained peacetime unemployment rate in 41 years.

Since 1993, real wages have risen 6.1 percent compared to a decline of 4.3 percent during the previous two administrations. Real hour wages are up 2.5 percent in the past year alone after falling 5 percent from 1981 through 1992. The median family income, adjusted for inflation, is up $3,517 since 1993 after falling $1,835 between 1988 and 1992.

And sometimes what we don't hear is as important as what we do hear. I don't think any of my Republican colleagues will complain today about what is called the Misery Index. The Misery Index, many of you may recall, was the quotient used by Ronald Reagan in 1980 that asked the question, "Are you better off today than 4 years ago?" The resounding answer today from coast to coast is yes. Since the Clinton-Gore administration came to office in 1993, we are better off. In New York, in California, in New Jersey, in Virginia, in Indiana, and nearly every other State, we are better off today than we were 6 years ago. It would appear that this strong economic growth, more than any other factor, has made these State tax cuts possible. More people working and making higher wages translates into higher tax revenues and lower expenditures on welfare and unemployment. Given these strong economic statistics, it is no wonder that the States now have money to pay for tax cuts.

One illustration is what has taken place in New Jersey. In her written testimony submitted to the committee, Governor Whitman says that she was able to cut New Jersey's personal income tax by 30 percent while retaining the same level of tax revenue, but what makes this possible is more people working and paying taxes on higher incomes all of which has taken place under a Democratic administration.

Yet another myth is that it is just Republican Governors who have cut taxes. This is also not true. Democratic Governors, none of whom, as far as I can tell, were invited today, as well as Republican Governors, have been able to take advantage of the strong economy of the last 6 years to cut taxes. For example, Indiana Governor O'Bannon cut taxes by $600 million in his first year in office. He has proposed another $1 billion in tax cuts in 1999. Governor Carper of Delaware has cut taxes for 5 consecutive years. Governor Locke of Washington and Governor Patton of Kentucky have signed tax cuts in recent years. In Missouri, Governor Carnahan has an increase in personal income tax exemptions as well as a reduction for health insurance costs for self-employed individuals. In fact, this year alone, 10 of the country's 19 Democratic Governors have proposed tax cuts for their States. But we are not going to hear from any of these Democratic Governors. We are also not going to hear testimony from anyone about the negative consequences of some of the Republican tax cuts. There is no mention that some

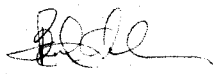
States with Republican Governors would be forced to cut funds for education programs and health care to pay for tax cuts. There is also no mention of increases of State debt or increases in local taxes that are necessary to make up for cuts in State funding for services.

So, I can't help but be a little skeptical about the motives behind this hearing. First, we have a hearing to showcase Republican Governors' tax cuts; then, tomorrow, the day taxes are due, Mr. McIntosh is holding a subcommittee hearing entitled—this is the title for the hearing—"Clinton-Gore Versus the American Taxpayer." It would appear that these hearings are little more than a taxpayer-funded commercial for the Republican party. I find it ironic that the majority which says it is holding this hearing to find out how to save taxpayers' money would actually waste the taxpayers' money to hold what amounts to an RNC political event. With income taxes due tomorrow, I wonder what the taxpayers will think about that. Thank you, Mr. Chairman, for the opportunity to make this opening statement; I yield back the balance of my time.

Mr. BURTON. Thank you, Mr. Waxman, and, as you know, we always extend to the minority the right to invite someone, and this was no exception; the minority chose not to invite any Governors.

Do any other Members have any opening statements?

[The prepared statement of Hon. Benjamin Gilman follows:]



Remarks
"Tax Reform in the States"
April 15, 1999

THANK YOU MR. CHAIRMAN....

AS WE ALL KNOW, TODAY IS TAX DAY. TODAY, MILLIONS OF WORKING FAMILIES WILL ONCE AGAIN REALIZE THE SAD REALITY THAT THEY SPEND MORE ON FEDERAL TAXES THAN ON FOOD, SHELTER, CHILD CARE, AND OTHER IMPORTANT NECESSITIES....

MOREOVER, CONGRESS WITH YESTERDAY'S PASSAGE OF THE FISCAL YEAR 2000 BUDGET RESOLUTION, IS WELL ON ITS WAY TO DECIDING ON THE IMPORTANT ISSUES OF TAX CUTS AND GOVERNMENT SPENDING .....

ACCORDINGLY, I KNOW OF NO BETTER WAY TO UNDERSCORE THE NEED TO TAKE A SERIOUS LOOK AT HOW BEST TO PROVIDE NECESSARY TAX CUTS AND IMPORTANT GOVERNMENT SERVICES, WHILE SHRINKING OUR BURDENSOME RED TAPE AND BUREAUCRACY, THAN BY HIGHLIGHTING THE ACHIEVEMENTS OF THE GOVERNOR OF NEW YORK, GEORGE PATAKI.....

GOVERNOR PATAKI HAS SHOWN THAT A STRONG COMMITMENT TO FISCAL RESPONSIBILITY AND A BELIEF THAT GOVERNMENT CAN ASSIST THOSE IN THE PURSUIT OF A BETTER LIFE CAN INDEED GO HAND IN HAND....

.... WITH THE GOVERNOR'S LEADERSHIP, NEW YORK IS NOW THE NATIONAL LEADER IN CUTTING TAXES. HE HAS CUT INCOME, CORPORATE, PROPERTY, AND SALES TAXES, AND HAS ELIMINATED NEW YORK'S ADDED-ON ESTATE TAX.

IN ADDITION, THE GOVERNOR HAS FORGED AHEAD WITH AN IMPRESSIVE AGENDA ON CRIME CONTROL, WELFARE REFORM, JOB CREATION, EDUCATION EXCELLENCE, ENVIRONMENTAL PROTECTION, AND ACCESSIBLE HEALTH CARE...

THROUGHOUT MY TENURE IN CONGRESS AS A REPRESENTATIVE FORM THE MID-HUDSON VALLEY OF NEW YORK, I HAVE HAD THE PLEASURE OF KNOWING AND WORKING WITH THE GOVERNOR FIRST-HAND WHILE HE WAS MAYOR AND THEN IN THE STATE LEGISLATURE...

MOREOVER, DURING THE PAST FIVE YEARS, AS THE REPUBLICAN DEAN OF THE NEW YORK DELEGATION IT HAS BEEN A DISTINCT PLEASURE TO WORK WITH GOVERNOR PATAKI AND HIS ADMINISTRATION DURING OUR EFFORTS TO PROVIDE NEW YORK WITH THE BEST POSSIBLE TOOLS FOR AN ECONOMIC AND QUALITY OF LIFE RENEWAL....

I AM CONFIDENT THAT THIS MORNING'S TESTIMONY WILL PROVE ENLIGHTENING AND I BELIEVE ALL OF US IN CONGRESS CAN LEARN IMPORTANT LESSONS FROM THE GOVERNORS EXPERIENCES AND POLICIES IN NEW YORK...

Mr. BURTON. Ms. Whitman, thank you very much for being with us today. We really appreciate your being here, and, as you can see, there is some political jousting going on as is normal, but we would love to hear from you about what has been going on in your State and how you have dealt with your problems.

STATEMENT OF CHRISTINE T. WHITMAN, GOVERNOR, NEW JERSEY

Governor WHITMAN. Well, thank you very much, Mr. Chairman and good morning. I want to thank all the committee for the opportunity to talk about tax reform in the State of New Jersey.

It has been said that the power to tax is the power to destroy; conversely, the power to cut taxes is the power to restore. A responsible government balances the pursuit of revenue to do the people's business with the pursuit of low taxes to keep the people in business.

When I ran for Governor 6 years ago, the tax system of New Jersey was, frankly, way out of balance. A national recession had been compounded by the largest tax increase in our State's history, $2.8 billion in tax increases. Companies had fled New Jersey, and we were losing jobs by the hundreds of thousands. In an increasingly global economy, I believe that States must do all they can to attract jobs and, just as importantly, retain the jobs they already have, and it is clear to me that creating a competitive tax structure is integral in that effort.

During my campaign, I proposed a steep cut in the State's personal income tax, including a 30 percent cut for the majority of New Jersey workers. I believed it was the right way to help families who were struggling to make ends meet as government took more and more money out of their paychecks. I believed it was a good way to force the State government to spend its money more intelligently, and I believed it was the only way to start reversing the exodus of companies and jobs from the State of New Jersey.

The critics had a field day with my proposal, not surprisingly. Some said it was just a cynical ploy to get elected, and I had no intention of ever making it happen. Some feared I would cut taxes, because they said State government couldn't afford the loss of revenue. Others dismissed the idea as likely to have little effect on families or businesses.

We phased in that income tax cut between 1994 and 1996, a year ahead of schedule and removed 350,000 low-income earners from income tax payments altogether. And let me tell you, in every one of those years, we increased the number of jobs and businesses in the State of New Jersey; we decreased the State's tax burden on our families, and we still brought in more tax revenues than we had the year before. We recovered every job lost during the previous administration and added well over 130,000 more. More New Jerseyans are working today than ever before. In fact, New Jersey's unemployment rate is the lowest it has been in a decade.

We received more good news in the most recent regional forecast analysis by WESA, and I would like to quote from it briefly: "New Jersey now has the fastest employment growth in the mid-Atlantic region for the sixth straight year. It has outpaced both New York and Pennsylvania and all major sectors except for the two that are

shrinking in the mid-Atlantic region, government and manufacturing," and I am very pleased that government leads that.

Mr. Chairman, we have proved the critics wrong. Tax cuts work. They allow families to keep more of the money they earn. Whether they save, spend, or invest those dollars, that activity has a positive effect on the overall economy. Furthermore, cutting taxes challenges government to spend more efficiently, and tax cuts send a signal to business that government understands their needs for a competitive environment. In our case, we followed up on our personal income tax cuts with several business tax cuts, including one that gave New Jersey the lowest small business tax in the region.

In total, we have cut taxes 17 times during my tenure with a cumulative savings of $6.5 billion by this July. While the income taxes save taxpayers the most, I would like to mention a few other key reforms in New Jersey's tax structure. We eliminated, as the chairman mentioned, a sales tax on yellow pages advertising which saves businesses, particularly small businesses who are very dependent on that advertising as the only way to meet their customers, $35 million a year. We enacted three tax cuts for research-intensive, high-tech businesses which ultimately will mean $34 million in savings to this key sector of the New Jersey economy. We have also restructured New Jersey's energy tax and have provided for a 45 percent reduction in the energy tax rate. In replacing our utility tax, we will save homeowners and businesses $68 million by the end of next year. By cutting these taxes, we have sent a message that State government in New Jersey is on the side of the taxpayers. Yes, we are in the midst of a Nationwide boom, but I don't think it is coincidence that States like New Jersey, which have cut taxes, are doing exceptionally well.

As I mentioned earlier, when I came into office, citizens were feeling overburdened by taxes at every level of government. Not only had their State taxes gone up but so had their local property taxes, at the same time as their property values were going down. During my administration, we have managed to help local government keep the rate of tax increases, of local property tax increases at historically low levels. But because property taxes are still too high in the State of New Jersey, we continue to fight for our taxpayers.

Just yesterday, I signed four pieces of legislation that create a new $35 million State fund to reward towns and school districts that consolidate or share services. New Jersey suffers from an overabundance of local government. We have over 600 school districts, 566 municipalities, enumerable water districts, fire districts, and other forms of local government. By combining efforts, these local governments can deliver better services at lower cost to the taxpayer.

I am also pleased to say that we are going to provide an even more immediate and direct relief to property taxpayers. Tomorrow—and it is tax day, and there is some significance in that, which is why we are doing it then—I will sign into law a $1 billion Property Tax Relief Program. It is the largest property tax relief in our State's history. When it is fully phased in by the year 2002, every homeowner in New Jersey will receive a check averaging $600. It depends on their local school tax-property tax burden, and

it is based on that, but the average check in the State will be $600, and it will be going to 1.9 million homeowners.

Members of the committee, New Jersey's experience gives me confidence that tax cuts can make a tremendous contribution to the well-being and prosperity of the community, whether it is a town of 5,000 or a Nation of 50 States. The U.S. Congress deserves credit for moving our Nation to a balanced budget and a Federal surplus. Having dealt with that kind of situation at the State level, I know that you have been offered hundreds of ideas—and some of them very good ideas—as to how to spend that surplus even before it arrives.

When considering what to do with the Federal surplus—and I hesitate to offer ideas to the Congress, because you know these issues far better than mere Governors of the States—but I believe that Congress should set aside funding for high priorities, like Social Security and education. I also believe, however, that Congress would do well to consider returning some of the surplus funds to hard-working, American taxpayers. As a Governor of a State that receives the lowest return on our Federal tax dollar—we are 50th of the 50 States—I also believe that kind of a tax cut would be the most equitable to the people of my State.

Tax cuts work. They are important in sustaining economic growth, increasing savings and investment capital and, most of all, giving the working men and women of this country the opportunity to spend more of their hard-earned tax dollars on the needs of their families. Tax cuts keep government's relationship with the people in balance and help limit the size of government. What is more, they also keep our Nation headed toward prosperity as we head into a new century.

Mr. Chairman, members of the committee, I thank you for your time, and I welcome any questions that you might have for me.

[The prepared statement of Governor Whitman follows:]

TESTIMONY OF GOVERNOR CHRISTINE TODD WHITMAN
BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM
WASHINGTON, D.C.
WEDNESDAY, APRIL 14, 1999

Thank you, Mr. Chairman, and good morning. I want to thank the members of the committee for this opportunity to speak about tax reform in the State of New Jersey.

It has been said that the power to tax is the power to destroy. By the same token, the power to cut taxes is the power to restore. A responsible government balances the pursuit of revenue to do the people's business with the pursuit of low taxes to keep the people in business.

When I ran for Governor six years ago, the tax system in New Jersey was out of balance. A national recession had been compounded by the largest tax increase in my state's history – $2.8 billion. Companies fled New Jersey, and we lost hundreds of thousands of jobs.

In an increasingly global economy, I believe that states must do all they can to attract jobs and, just as important, retain the jobs they already have. And it is clear to me that establishing a competitive tax structure is one of the first things you have to do.

During my campaign, I proposed a steep cut in the state's personal income tax, including a 30 percent cut for the majority of New Jersey workers.

I believed it was the right way to help families who were struggling to make ends meet as government at every level took more and more from their paycheck. I believed it was a good way to force state government to spend its money more intelligently. I also believed it was the only way to start reversing the exodus of companies and jobs from the State of New Jersey.

The critics had a field day with my proposal. Some said it was a cynical ploy to get elected – and were convinced I had no intention of making it happen. Some feared I would cut taxes because they said state government couldn't afford the loss of revenue. Others dismissed the idea as likely to have little effect on either families or businesses.

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We recovered every job lost from the previous administration's tax increase and added well over 130,000 more. More New Jerseyans are working than ever before. In fact, New Jersey's unemployment rate is the lowest in nearly a decade.

We received more good news in the most recent regional forecast analysis from WEFA. Let me quote from it briefly: "New Jersey has now had the fastest employment growth in the Mid-Atlantic region for the sixth straight year. ... It has outpaced both New York and Pennsylvania in all major sectors except for the two that are shrinking in the middle Atlantic region – government and manufacturing."

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By cutting these taxes, we have sent the message that state government in New Jersey is on the side of taxpayers. Yes, we are in the midst of an economic boom nationwide, but I don't think it's a coincidence that states like New Jersey, which have cut taxes, are doing exceptionally well.

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During my administration, we have managed to keep the rate of increase of local property taxes to historically low levels, but because property taxes are still too high, we continue to fight for our taxpayers.

Just yesterday, I signed legislation that creates a new $35 million State fund to reward towns and school districts that consolidate or share services. New Jersey suffers from an overabundance of local government with 566 municipalities, more than 600 school districts, and a host of other local units of government. By combining efforts, these local governments can deliver better services at lower cost to the taxpayer.

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Tomorrow, I will sign into law a $1 billion property tax relief program – the largest property tax relief effort in our state's history. When it's fully phased in by the year 2002, every homeowner in New Jersey will receive a check averaging $600 every year.

Members of the committee, New Jersey's experience gives me confidence that tax cuts can make a tremendous contribution to the well-being and prosperity of a community, whether it's a town of 5,000 people or a nation of 50 states.

The U.S. Congress deserves credit for moving our nation to a balanced budget and a federal surplus. Having dealt with that kind of situation on the state level, I know that you have been offered hundreds of ideas for how to spend that surplus even before it arrives.

When considering what to do with the federal surplus, I believe Congress should set aside funding for high priorities like Social Security and education. I also believe, however, that Congress would do well to consider returning some of the surplus funds to hard-working American taxpayers. As the governor of a state that receives the lowest return on our federal tax dollars, I also believe that a tax cut would be the most equitable.

Tax cuts work. They are important to sustaining economic growth, increasing savings and investment capital, and – most of all – giving the working men and women in this country the opportunity to spend more of their hard-earned dollars on the needs of their families.

Tax cuts keep government's relationship with the people in balance and help limit the size of government. What's more, they can keep our nation headed toward prosperity as we head into a new century.

Mr. Chairman and members of the committee, I thank you for your time, and I welcome any questions you may have for me.

THE NEW JERSEY RECORD

Since Governor Christine Todd Whitman was inaugurated in January 1994, there have been – so far – a total of 17 tax cuts enacted. These cuts include:

- 30% Tax Cut – Cut the state income tax three times to fulfill the promise to cut taxes 30% for most New Jerseyans in three installments.
- Off the Tax Rolls – Eliminated state income taxes altogether for 350,000 New Jerseyans earning $7,500 or less.
- Property Taxes – Enacted property tax deduction act to restore the property tax deduction for personal income.
- Business Tax Cuts – Enacted a series of business tax cuts that have stimulated the economy and will assure the continuation of existing jobs and the creation of new jobs.
- Energy Tax Reform – Cut energy tax rates by 45% over a five-year period beginning in 1999.
- Small Business Tax – Enacted the region's lowest corporate tax rate for small business.
- Corporation Tax – Lowered the corporate business tax rate to 9%.
- Yellow Pages Tax – Eliminated the sales tax on "yellow pages" advertising.
- Double Weighting – Restructured the corporation business tax formula, to make it more advantageous for companies to remain and grow in New Jersey.
- Broadcast Equipment Tax – Enacted a sales tax exemption for broadcast equipment.

Aggregate Tax Reduction – As the result of these tax changes, the cumulative savings for New Jersey's taxpayers will be $6.5 billion by July of this year.

Job Creation – Aggressive tax reduction has helped spark a net increase of approximately 330,000 private-sector jobs since January 1994, including higher paying jobs in fields such as communications media and pharmaceuticals. New Jersey's unemployment rate is now the lowest in nearly a decade.

Mr. BURTON. Thank you Governor, and I think your record speaks for itself. When you were running, I believe, in 1993, during the campaign it was stated that if you were able to cut taxes as you had promised, the property tax rates would go through the ceiling. You mentioned that you are cutting property taxes, but can you tell us what happened immediately after you started implementing your tax cuts? What kind of effect did it have on the property taxes?

Governor WHITMAN. Well, the property taxes in the State of New Jersey have gone up every year since we have kept records, save one. The 1 year where we didn't see a large increase was the first year after the $2.8 billion tax increase, but the very next year it started to go up again and went up at a rate faster than it has gone up over the 6 years of my administration.

What we have done, we have increased municipal aid; we have also, more importantly, been giving the school districts and municipalities and counties more tools to help them be smarter on how they spend their money and try to keep those costs under control. In the State of New Jersey, we don't collect the property tax; we don't spend the property tax; that is local decisionmaking, but, obviously, State spending patterns have an impact. That is why we have taken over, for instance, in the course of my administration, the full responsibility for funding the county courts, taking a major burden off the counties, something they had to pay for before. We have increased dramatically our funding for schools and school districts, again, to help with the burden. We passed a State mandate-State pay piece of legislation, so we now very carefully consider anything we send down to the municipalities, much as you have done here, and provide State dollars if, in fact, it is a mandate.

And because of all those, while property taxes have continued to go up, the rate has been better controlled, and with the legislation I signed yesterday, with the relief that we are going to be providing tomorrow and with future legislation that I hope to sign, we will continue to give local entities of government more opportunity to be smarter on how they spend their dollars and encouraging them to regionalize and to share services.

Mr. BURTON. During your remarks, you made a point that cutting taxes challenge government to spend more efficiently. We passed, here in Congress, what is called the Results Act where we are trying to get each agency of Government to come up with a business-like plan, and one of the problems we have had is that the bill we passed did not have a lot of teeth in it, so some of the agencies of Government, while they feign making some changes and coming up with a business plan, they are really not doing it, because we haven't put the teeth in it. Now, the chairman of the Appropriations Committee and I have sent a letter to all of the agencies saying that if they didn't comply with the Results Act that they might run the risk of having their appropriations cut. How did you implement spending cuts in various agencies of government to go along with the tax cuts in your administration? What kind of teeth did you put in that?

Governor WHITMAN. Well, I have a distinct advantage over you in that; I am the teeth. I put the budget together, and I can tell the departments what it is that I think is appropriate after listen-

ing to them, obviously, and taking in all their concerns, and if the legislature determines to put more money in, I have the line item veto, and I have exercised it on numerous occasions.

What we did and the first thing we looked at was controlling the rate of growth. We were spending faster than we were seeing revenue grow. We have now changed that. Our revenue stream is now growing faster than increases in expenditures. A lot of the expenditures we saw in State government were formula-driven over which we have no control. In fact, as we look at the pie of State government spending, the part over which the administration has control is ever shrinking, because so much of it comes with strings attached to either government strings that we have to match in order to be able to keep our dollars or it comes from negotiated contract settlements that have automatic escalator clauses in them, things over which we have very little control, but we look there first. And then I ask every department to go back and redefine their core mission, then to look at every program that they support and tell me and defend to me how that meets their core mission. And, as they come forward with new expenditure programs, they have to go back and do the same thing, and when I present the budget to the legislature, one of the agreements that we have come to is that, obviously, they can add things in spending, and that is fine, but where they start to impact on total spending, they have got to find commensurate cuts. If they want to change priorities and spend on a different program, I am willing to listen to that, obviously; they have a responsibility and right to do that, but they also have to understand the need to control spending overall, and we will set the ceiling and ask that they maintain that and that they find commensurate cuts if they want to increase expenditures in some other area.

Mr. BURTON. One last question, and then I will yield to my colleague from California. When you were running for Governor, you made one of the issues that Governor Florio's tax increases were hurting economic growth and revenues coming into the State, and you have cut taxes—he had increased taxes to bring in more revenue—and you say the revenue stream has increased, while after he increased taxes, the revenue stream went the other way. Can you explain that?

Governor WHITMAN. Well, one of the problems that we faced after the increase of taxes added to an already bad situation; we were still in a recession. New Jersey, which traditionally had done better than the Northeast under any economic circumstances—if the Nation was doing well, New Jersey, generally, did a little bit better than the other States in the region, but when the Nation was doing badly, we still did a little better. We suddenly fell off a cliff after the tax increases. We started to lag behind our neighbors in the Northeast in the recovery. We were the slowest to come out of that recovery.

By cutting the taxes, but sending the message that we were, in fact, interested in promoting business and giving taxpayers more of their dollars to spend or invest as they saw fit, we sent a very clear message that things were going to be changing, and people responded. They responded very well, and businesses responded, and we saw a change in that cycle of businesses closing and leaving,

particularly small business, and, therefore, we were getting more revenue. I mean, the economy in the Nation was coming back, but we hadn't been benefiting from that end of the recession until we started to cut taxes and the regulatory burden we were placing on businesses, and that has made a real difference, and people have saved, and they have invested. We now, as I say, we have created over 330,000 more jobs. We have over 330,000 more jobs today than when I took office. It has been dramatic, the change has been dramatic, and we are once again, as WEFA has pointed out, leading the mid-Atlantic States in the recovery, and that is an even bigger jump than it might seem from our past history.

Mr. BURTON. Very good. Mr. Waxman.

Mr. WAXMAN. Thank you, Mr. Chairman. Governor Whitman, I want to welcome you here today. The majority of people in New Jersey, when they were polled, believe that the cut in income taxes in your State was the cause for a dramatic increase in their property taxes, and, in fact, the average residential property tax increased, during the time that you were Governor, $698 which is more than a 20 percent increase, and the study by the Institute on Taxation and Economic Policy concluded New Jersey's per capita property tax bill is the highest in the country. The same non-partisan New Jersey Office of Legislative Services said "While they got a reduction in income taxes, there was an increase in property taxes that weren't really offset;" that the average household saved $410 in 1998 due to the income tax cut while its property tax increased $698.

Now, you are proposing a $1 billion rebate to help deal with the problem that some people think was caused by the State income tax cut, and you are going to give some kind of rebate to property taxpayers for the future, but it doesn't really do anything about taxes paid between 1993 and 1997.

What is going on here? It seems like government's taking with the one hand and giving with the other or giving with one hand and taking it away with the other. People see taxes going up on property, and that is more regressive than the income tax. Why is this—what do you think about that?

Governor WHITMAN. Well, Congressman, as I indicated in my original answer, property taxes have been a problem in the State of New Jersey from the beginning, and, in fact, the overall rate increase was higher under my predecessor who raised every other tax, including a tax on toilet paper, $2.8 billion in the State.

We, unfortunately, at the State level don't control local government spending. We have an impact. This year, for instance, we have $8.4 billion in property tax relief. That includes a $5.4 billion in school aid; $1.6 billion in municipal aid going back to our municipalities, but if I were take the money that we are proposing and that I will actually sign tomorrow in the billion dollar Property Tax Relief Program and send that to the local districts, they would spend it. In fact, interestingly enough, we have school districts right now that are going to their public with their school bond issues and say "Go ahead and vote for increasing spending for the school district, because the State is going to give you money back. So, you are going to be OK even if you increase this spending." We have——

Mr. WAXMAN. Well, you would think that they would be led to believe that is because that is what is happening. You lower the tax rates at the State level; to make up for the money for services, the property taxes are increased. You say you don't have a connection to it, but now you are going to give a rebate to those taxpayers——

Governor WHITMAN. We are going to give a rebate to the people, because we can't control the local spending. We took over the county court system, literally tens of millions of dollars. Unfortunately, the counties did not respond by lowering property taxes to their constituents; they increased spending, and that is the concern that we have. The only way to get directly to the taxpayer to provide the relief they need is to send the check directly to them.

Would I rather see property taxes overall decrease? Yes, but I will tell you that I would far rather decrease every tax that I can than to see what happened during the Florio administration where we increased taxes $2.8 billion on everything else, and property taxes went up faster than they have gone up in the last 6 years, and property values were going down at that time, so you have got a double whammy there.

Mr. WAXMAN. I am not a citizen of New Jersey; I don't follow it all that carefully. Some of your critics said that you have scaled back on State contributions to State pension plans and unemployment insurance funds, from reimbursing hospitals for medical care for the uninsured, and that funding for transportation and child welfare was cut, and the debt was increased. I don't know if this is happening or not——

Governor WHITMAN. Sure, may I answer that?

Mr. WAXMAN [continuing]. But I want you to answer this question, and you can elaborate on it. Your presentation to us sounded wonderful. You lowered taxes; there are more jobs; people have got money in their pockets; the economy benefited from it. Yet, in 1997, when you ran for reelection, you had one of the closest elections in the country; it was 47 percent to 46 percent. What was going on in New Jersey to make people not appreciate all the wonderful things you have done for them? Or did they have some questions as to whether we're going as well as you presented it?

Governor WHITMAN. Well, Congressman, you understand politics, and in the State of New Jersey where we have a registration that is overwhelmingly independent and then more Democrats than Republicans, we are a very competitive State. Auto insurance has always been a problem in the State of New Jersey, and we have now—I have signed legislation that has provided a 15 percent reduction in auto insurance to the people of the State; all good drivers get 15 percent off of the mandated policy, but that hadn't happened before the election, and people were really angry over auto insurance. Because everything else was going well enough, they were now focusing on other issues.

But I would like to respond to some of what you had in your question about debt, because this is something I hear about a great deal. We have maintained our general obligation debt at approximately 3 percent of our appropriations. In fact, when you put all debt in, and I believe in acknowledging all debt, and the situation I walked into, I found a lot of debt that was off the books as well

as debt on the books. We have kept all the debt—it is lower now as a percentage of the budget itself.

Debt has increased—overall debt has increased $146 million in the 6 years that I have been Governor of the State of New Jersey. That has gone to build roads; it has gone to build jail cells; it has gone to help with construction for educational facilities; it has gone for the appropriate things.

I faced a $400 million unanticipated spike in debt service left by the previous administration, about $8 million in debt that was not on the books. We have saved the taxpayers in pension costs about $46 billion in payment. It has been a very successful record. It has taken a lot of work and a lot of effort. We have reduced our reliance on one-shots. When I came into office, it was almost $2 million; it is now down to about 2 percent of the overall budget, a little over $360 million. It is a lot of hard fiscal discipline that is required here, but the truth of the story is that we have reduced expenditures; we have kept debt steady and focused debt on where it needs to be but have recognized all the debt. We are not playing any games here. We have not sold a piece of highway to one of our authorities and somehow recognized the revenue as being good revenue.

So, it is important to understand that we have truly made a difference in the fiscal structure of the State of New Jersey, and I am very proud of that record. It is not to say that we have solved all the problems, and it is not to say that property taxes aren't still too high or that auto insurance doesn't still need a lot of work. They both do, but we have been very aggressive and will continue to be aggressive in dealing with them.

Mr. BURTON. Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman, and, welcome, Mrs. Whitman. I come from Illinois which I think has some similarities to New Jersey in that we are 48 out of 50 States in return of our tax dollars. We also have an overabundance of local government. I think we have the leader in having the most unusual townships, county, and et cetera in local government.

I am interested in your funding of schools. I know that in Illinois we have a primary duty of the State to fund local schools, and, certainly, our property taxes are amongst the highest, and funding comes mostly from the property taxes, although the State does try to—the paramount duty has been thought to be 51 percent, but as the property taxes keep rising, it is very difficult for the State to keep up, and we don't meet that requirement. Do you have the same thing? What is your obligation to fund the schools?

Governor WHITMAN. We are facing the same problem. The proportion of the State budget that goes to school aid now is just about one-third. It is right around $6 billion in school aid. We have increased every year dramatically, and it is still, though, largely funded for most of the districts through the property tax. We have what is known as special needs districts where the State bears up to 70 percent—we pay up to 70 percent or more of those districts, and in others in wealthier districts, we don't maintain the same proportion percentage-wise.

What we have done in changing the structure of funding for education—and for the first time in 28 years the Supreme Court has

approved the funding proposal and methodology that the States put forward, and we are no longer under court order here—but what we have done is we are now recognizing enrollment, and for the first time we are going to a full enrollment and basing our funding on enrollment, but we are also basing it on something new in the State of New Jersey which are standards and accountability. We had no standards in our schools to speak of. We now have standards in seven academic areas. We are testing children in the 4th, 8th, and 11th grades, and we are watching school's performances, and we are rewarding those schools whose children are succeeding on those tests. We are going to be intervening earlier in schools where children are not achieving those tests, and that is also a part of the school funding. The basic formula, however, is based on enrollment. We have determined what it should take to deliver to the core curriculum standards, and, therefore, we are looking at schools that are above or below that average and seeing what their children are doing.

We also have proposed and we have in place now a very comprehensive report card on school districts that shows what money is being spent and how it is being spent. We are No. 1 in the Nation, still, on what we spend on average per child in the classroom. When I took office, we were No. 1 on what we spend on child, on average, through education. But we're 37th on what was actually reaching the child in the classroom and what we were spending on the child in the classroom, and our kids were achieving at about 35th percentile. There is clearly something wrong with that. We were willing to pay a lot of money on education on a per child basis, but it was not reaching the children.

So, that is why we have changed the way we are doing the funding. We have given the State a greater ability to work with in a collegial way, not a takeover way, but a collegial way with school districts that are having trouble delivering that education into the classroom, and we are looking forward to ensuring that we are seeing our kids meet those standards, training our teachers, and by the time I leave office, we will have every classroom in the State of New Jersey, not every school, but every classroom in the State of New Jersey wired for the Internet or distance learning.

We are combining those things with the increased spending that we have put in and the way we are trying to help municipalities and school districts. We have school districts that have no schools in them, and still there is a school district and elected board, and they have some administrative personnel which costs everybody money and is wasted money as far as I am concerned and as far as I believe the children are concerned. So, we are trying to ensure the efficiency, focus on the need in the classroom, and ensure that the State's proportion is equitable but not wasted money.

Mrs. BIGGERT. Well, certainly, one thing that we hear a lot about or at least when I was in the Illinois Legislature, too, was the mandates and mandates that we were putting on schools or local government, and I noticed that you also had signed legislation which provided that local government and taxpayers with relief from unfunded State mandates and then eliminated existing mandates. Could you expand on that a little bit?

Governor WHITMAN. What we have been doing is reviewing every place where the State has placed a mandate that has considerable financial obligations with it to ensure that it is within the scope of what we deem to be the most appropriate thing. We are not going back and refunding dollars on that. What we have said is going forward—we grandfathered the existing programs—but we have said going forward—and it has changed legislation in many instances—any time we have a mandate that has a dollar amount with it that is going to cost local districts money to implement, the State must pick up those dollars, and we have been doing that. The good part of that is that it discourages a lot of legislation. People have thought very carefully now about whether, in fact, this is important legislation to implement when they are going to have to come up with the dollars to pay for it, and that is very important, we think, at the State level. It is nice to have a great idea, but when you start to get serious about who pays for it, there is a second look that is taken.

And, so we are reviewing everything very carefully. We have been reducing mandates, particularly in education. We now do have charter schools in the State of New Jersey which are very successful, and a lot of those—the reason for the having them—I mean, one of the advantages that you get is you are outside of a lot of the requirements of the Department of Education, and that is a good thing. I would like to see more charter schools, and we are moving toward that each year.

Mrs. BIGGERT. Are there some mandates you think that the Federal Government has placed on the States that we should be doing the same thing?

Governor WHITMAN. I could give you a list, and I would be happy to give you a list. We don't expect in State government—certainly, I don't expect—to get money from the Federal Government without parameters, without some kind of overall goal as to what should be achieved through those dollars, but what starts to lose us money, what wastes us all time is when we get so prescriptive that you have to spend so much of your time filling out forms in order to get the dollars or trying to configure and squeeze a State program into the Federal mandate even though that is not where we need to spend our money.

We have done something very different in the State of New Jersey as far as combining all the dollars that we—we have done it with a focus on our cities, particularly our inner cities, and I have put together a cabinet of the whole and asked them, all departments that have anything to do, any programs that impact on our cities, to come together to reduce the requirements and the strings attached and asked our cities to come forward, particularly with—we have asked them to put together local groups that will tell us neighborhood by neighborhood what that neighborhood needs, recognizing that not only are cities different, one from another, but the neighborhoods within those cities are different, and we have asked the people to come forward with what their needs are, and we have put together, we have taken money from every program that we have available and allowed them flexibility to apply those dollars to their needs, so that it is not a one-size-fits-all, and the challenge, of course, that you face here is you are dealing with 50

different States, and what works in New Jersey is not going to in Wyoming; it is not going to in Illinois, necessary. The flexibility is required at the local level to be able—and at the State level to be able to reconfigure those dollars to meet the needs.

In education, there are a lot of Federal programs that have strings attached on education. We are now in the process of whole school reform within our special needs district. That means changing the way we set our schools up from the ground up. It means taking parents—getting parents involved in the system and administrators and teachers and changing the length of the day, the way they present the classes. We need to oversee—that is what the courts accepted when they accepted our proposal on State spending for schools. That is what they want to see happen. We need to make sure that our special needs districts are addressing those needs. I have a real concern that a great deal of Federal money that bypasses the States and goes straight to the municipalities, we will have no control over; we will have no ability to ensure that they are, in fact, meeting the needs in the classroom as has been accepted by our State supreme court, and that is a real concern that I have, and as you look at legislation, I would just urge you to understand that there is a great difference amongst the States about needs, and while we are trying not to be overly prescriptive on the individual districts, we have standards and accountability at the State level, and we need to ensure that our districts are meeting those.

Mr. BURTON. Before we yield to Mr. Towns, let me just say that any information that you have or any recommendations that you might have, Governor Whitman, regarding Federal mandates and how they restrict rather than help, if you could have your staff submit those to us, we will take a look at them; maybe we can help you with them.

Governor WHITMAN. Certainly.

[The information referred to follows:]

STATE OF NEW JERSEY
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CHRISTINE TODD WHITMAN
GOVERNOR

April 27, 1999

The Honorable Dan Burton
Chairman, Committee on Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Mr. Chairman:

Thank you for giving me the opportunity to testify before the Committee on Government Reform regarding the tax cuts we have enacted in New Jersey and the economic growth and job creation these tax cuts have helped us achieve. I hope that my testimony will assist Congress in assessing federal tax policy and exploring opportunities to return tax dollars to the American people.

Following up on our discussion during the hearing regarding the impact of unfunded federal mandates on the states, I'd like to provide you with two examples that are currently placing an added burden on the states.

Last year, Congress passed the Agricultural Research Extension Education Act, which funded crop insurance, agricultural research and food stamp benefits for immigrants. That bill was funded with a $1.8 billion cut in federal funding to the states for the administration of the Food Stamp program. The legislation was scored by the Congressional Budget Office as an unfunded mandate, and a point of order was raised on the House floor. However, Congress passed this unfunded mandate, nonetheless, and the President signed it into law. States are now forced to find state revenues to cover the cost of administering this federal program.

A second example is the Individuals with Disabilities Education Act (IDEA), which requires that children with disabilities receive special education services. The costs for state and local governments are significant and continue to increase annually. At the same time, the federal government's commitment to special education has remained at only about ten percent of the total, even though language in the statute calls for the federal government to provide forty percent of the costs. I urge Congress to fully fund its commitment to special education before it funds new initiatives. There are more requirements in this federal education law than any other and clearly this program merits full federal support.

I have also included, for your reference, a copy of a letter detailing a number of unfunded federal mandates and cost shifts which was sent to the House and Senate leadership at the beginning of the last Congress by the state and local government association, including the National Governors' Association.

Lastly, I'd like to correct a point that was raised during the hearing by Rep. Edolphus Towns regarding marriage license fees in New Jersey. The fee, which is currently $28, was last increased during my predecessor's term in 1992, not during my administration. Of the total fee, $25 is dedicated to a trust fund for New Jersey victims of domestic violence, and the remaining $3 is retained by the municipality.

Please feel free to contact me if I can be of further assistance.

Yours sincerely,

Christine Todd Whitman
Governor

Enclosure

Council of State Governments
International City/County Management Association
National Association of Counties
National Conference of State Legislatures
National Governors' Association
National League of Cities
The United States Conference of Mayors

May 16, 1997

The Honorable Newt Gingrich
Speaker
U.S. House of Representatives
Capitol, Room H-233
Washington, DC 20515-0001

Dear Mr. Speaker:

The elected leadership of the state and local government associations deeply appreciate your offer to continue a leadership role in our efforts to stop unwarranted federal mandates, cost shifts, preemptions, and regulations on state and local governments.

State and local officials are dedicated to achieving the goals of affordable and available health care for all; a clean environment and safe water; and consumer protections and due process. However, state and local officials are strongly concerned about the current process for attaining these goals. In some cases, the current process is wasteful and discriminatory against more pressing local priorities, and in others it may be deceptive because unfunded mandates may cause state and local officials to raise taxes at the local level.

The enclosed report outlines a current list of unwarranted mandates, cost shifts, preemptions, and regulations on which there is a consensus among our organizations. It reflects the continued philosophy that state and local officials are elected to allocate the resources of their constituents, not to be regional brokers of unfunded federal mandates, revenue preemptions, and misplaced special interest lawsuits.

Given the fiscal constraints on new revenues at every level of government, state and local officials have a growing determination to rebalance the federal system to a true partnership for a "public budget" that is fair to both taxpayers and the public. We are writing to seek your action on these mandates and are eager to support you in these efforts.

Sincerely,

Bob Miller

Bob Miller, Governor of Nevada
Chairman, National Governors' Association

George V. Voinovich

George V. Voinovich, Governor of Ohio
Vice Chairman, National Governors' Association

Michael E. Box
House Majority Chairman, Alabama
President, National Conference of State Legislatures

Richard Finan, President, Ohio State Senate
President-Elect, National Conference of State Legislatures

Mark Schwartz, Council Member
Oklahoma City, Oklahoma
President, National League of Cities

Michael Hightower, Commissioner
Fulton County, Georgia
President, National Association of Counties

Donald H. Garrish, Town Manager
Town of Brunswick, Maine
President, International City/County Management Association

Jeff Wells, Majority Leader
Colorado State Senate
Chairman, Council of State Governments

Richard M. Daley, Mayor
City of Chicago
President, U.S. Conference of Mayors

Enclosure

Mandates, Cost Shifts, Preemptions, and Regulations

The Issues

State and local officials are dedicated to achieving the goals of affordable and available health care for all; a clean environment and safe water; and consumer protections and due process. However, state and local officials are strongly concerned about the current process for attaining these goals. In some cases, the current process is wasteful and discriminatory against more pressing local priorities, and in others it may be deceptive because unfunded mandates may cause state and local officials to raise taxes at the local level.

Federal mandates--laws, cost shifts, preemptions, or regulations imposed by the federal government on state and local governments--have evolved into the modern-day version of taxation without representation, or trickle-down taxes. Congress and the federal government, lobbied hard by special interest groups, often determine what priorities state and local governments should adopt, and the kinds of services they should be providing, without specifying how the services will be funded. The result is that, to a large extent, the federal government ends up dictating the spending priorities for state and local governments regardless of local needs and conditions. As a result, mandates may eat away at basic state and local spending for education, welfare, public safety, and transportation, requiring unpopular solutions such as raising taxes or cutting vital services to pay for the programs that the federal government requires.

This report outlines a current list of unwarranted mandates, cost shifts, preemptions, and regulations. It reflects the continued philosophy that state and local officials are elected to allocate the resources of their constituents, not to be regional brokers of unfunded federal mandates, revenue preemptions, and misplaced special interest lawsuits.

Given the fiscal constraints on new revenues at every level of government, state and local officials have a growing determination to rebalance the federal system to a true partnership for a "public budget" that is fair to both taxpayers and the public.

Mandates

UMRA Implementation by the Congressional Budget Office

A major problem has developed concerning the implementation of the Unfunded Mandates Reform Act (UMRA) by the Congressional Budget Office (CBO). CBO has made an interpretation of UMRA that is the opposite of the intent of the law as passed by Congress and envisioned by the sponsoring organizations of state and local elected officials.

On June 10, 1996, CBO ruled that a point-of-order would not exist for a cap on federal Medicaid contributions and probably for any other mandatory safety net program, except food stamps. CBO says states already have sufficient flexibility to adjust to any cut or cap in these safety net programs. CBO says the law should have specified that "new" flexibility was required. This means that UMRA is suddenly inoperative for two-thirds of all federal aid to all governments for all purposes, and especially for the safety net programs for the poor. These programs include: child nutrition; child support enforcement; foster care, adoption assistance, and independent living; family support and preservation; Medicaid; and vocational rehabilitation state grants.

The provision giving a point-of-order for safety net programs is clear in that a separate threshold of $500 million was set. Without a point-of-order this section becomes meaningless as a part of the law.

NGA and the other state and local organizations of elected officials are shocked at this CBO interpretation and firmly believe it is the opposite of congressional intent. The understanding of all parties to enactment of UMRA was that any federal action with regard to safety net programs over $500 million that created an additional $50 million in financial burdens on states or local government was subject to a point-of-order. The safety net programs cited in the law are directly referenced to sequester language of the original Congressional Budget Act of 1974 that exempts these same programs from any across-the-board sequester.

We, and the elected leaders of all of the organizations of state and local government, urge you to include the following "Sense of the Congress" language in the budget resolution that would clarify the intent of Congress in passing UMRA.

> The Senate [House] wishes to clarify the intent of the Unfunded Mandates Reform Act as it currently applies to certain federal aid programs. The Senate [House] believes that any legislation that caps, reduces, or imposes new requirements on federal funding of any such program, as defined under Section 421(5)(B) of the Act, at an amount less than what otherwise would be provided for under existing law constitutes a federal intergovernmental mandate unless the direct savings to state, local, or tribal governments as a result of new or additional flexibility provided for the same program under the legislation is equal to or greater than the amount of the cap, or reduction, as estimated by Section 424(a)(1).

UMRA Implementation by Federal Agencies

The Environmental Protection Agency (EPA), in announcing its proposed changes in clean air regulations, said that UMRA requirements do not apply when they are inconsistent with applicable law. EPA also dismisses the requirements of the Small Business Regulatory Flexibility Act (SBREFA) and the President's Executive Order 12866 on the same grounds. EPA acknowledges that implementation of the new clean air regulations by the states might result in unfunded mandates but sees no direct legal connection with promulgation of standards under the Clean Air Act, UMRA, SBREFA, executive orders, and implementation of the new regulations.

The Treasury Department has refused to answer specific requests about its proposed $1 billion retroactive sanction on state and local governments due to "yield burning" issues.

The specific purpose of UMRA is being violated, not to mention the spirit of enhanced intergovernmental consultation of new regulations based on relative risk assessments (even health risks) and benefit-cost analysis.

Congress should clarify federal agency responsibilities with regard to UMRA.

UMRA and New Preemptions

UMRA clearly identifies federal preemptions as mandates. However, federal agencies increasingly make unilateral decisions to preempt state and local authorities. While UMRA says new preemptions are mandates and must be made explicit, consideration should be given to making new agency preemptions subject to judicial review as well as clarifying the role of UMRA with regard to new interpretations of existing law.

Recent preemptive proposals over state and local authority include telecommunications, internet taxation, and spectrum sales.

Medicaid Efficiency Reforms

The current Medicaid program has mandates that increase costs to all parties without corresponding benefits. The continued pursuit of administrative simplification, innovation, and good management that produced the extraordinary low Medicaid growth rates of recent years will continue to restrain unnecessary program spending. The following reforms are needed to sustain these efforts.

Repeal of the waiver requirement for mandatory managed care will facilitate further development of the Medicaid managed care market. As the Medicaid markets mature, competition between managed care entities will enable states to negotiate more favorable rates.

The dually eligible population, which is currently 6 million people, would be enrolled in managed care, creating a more streamlined, cost-effective system of health care delivery for those elderly and disabled individuals who receive a complete, but uncoordinated, package of benefits from both Medicaid and Medicare. Managed care will produce savings for both programs, while creating a more user-friendly health care experience for recipients.

Retroactive Internal Revenue Service Tax Mandates on States and Local Governments

In July of 1996, the Internal Revenue Service (IRS) proposed retroactive mandates that could force cities and towns to remit up to $1 billion to the IRS for what the IRS believes are overcharges by underwriters in more than 5,000 bond refinancings by state and local governments that occurred between the years 1991 and 1994.

The proposed revenue procedure is retroactive, in effect creating a new set of rules for actions already taken by state and municipal bond issuers who in good faith relied on existing federal laws and regulations. The proposed procedure would impose significant new costs, but uncertain benefits.

In addition, this regulation does not take into account President Clinton's Executive Order 12875, issued on October 26, 1994, the day before "National Unfunded Mandates Day." This order, entitled "Enhancing the Intergovernmental Partnership," focuses on unfunded mandates. In order to reduce unfunded mandates, agencies are directed not to promulgate any regulation not required by statute unless funds necessary to pay the direct costs are provided to cities by the federal government or a justification for not providing funds is made to the Office of Management and Budget (OMB). Guidance issued by OMB says that at a minimum the consultation must include any estimate of the direct costs to be incurred by other governments, and as much detail as possible with respect to the expected methods of compliance. This executive order has not been followed by IRS to date.

State and local leaders oppose this retroactive action on state and local governments.

Treasury Arbitrage and Rebate Rules

The 1986 Tax Reform Act imposed sharp new restrictions on investment earnings, or arbitrage, on how much state and local governments could earn from the way they invested the proceeds of traditional public purpose tax-exempt bonds before they were drawn down to finance projects or facilities. In addition, the new law and regulations mandated state and local governments to pay rebates on excess earnings. These mandates imposed major changes on traditional state and local capital finance, siphoning off significant resources from ongoing capital and operating budgets to meet new and complex federal requirements.

Between 1991 and 1995, state and local governments paid more than $1 billion in rebates to the federal government. Those payments, however, do not fully represent the cost to state and local taxpayers. Because the arbitrage and rebate rules are so complex, and the penalty for non-compliance

is so great, states and local governments have also been forced to spend large amounts to hire outside accounting and advisor firms to ensure compliance.

State and local leaders urge a prompt reassessment of this unfunded federal mandate and the creation of a safe harbor so that traditional public purpose state and local tax-exempt bonds would be focused on public infrastructure and services instead of outside costs for compliance with exceptionally complex rules.

Cost Shifts

Medicaid Caps

State and local officials are adamantly opposed to a unilateral cap on federal payments to Medicaid as an unfunded mandate.

Placing a cap on federal contributions to Medicaid could create a multi-billion-dollar unfunded mandate cost shift to states and localities. Current optional health care services to the poor elderly and children, and state plans to extend health care to the working poor would be severely curtailed.

Under a cap, once the federal spending obligation is fulfilled, states would become solely responsible for meeting uncontrollable program cost increases, stemming from things such as new drug treatments, lawsuits, and disasters. In confronting this cost shift, states would be presented with several bad alternatives. States would have to choose between cutting back on payment rates to providers, eliminating optional benefits provided to recipients, ending coverage for optional beneficiaries, or coming up with additional state funds to absorb 100 percent of the cost of services.

Rather than make the tough choices on budget priorities, the federal government is putting states in the position of having to make an impossible decision. No option would be painless. If states chose to address shortfalls by significantly cutting provider reimbursement rates, those who needed health care the most could find it difficult to access care. Medicaid options could not be easily eliminated, because they make up an important core of this program. More than two-thirds of Medicaid spending goes toward the elderly and people with disabilities. So-called optional eligibility categories include the frail elderly in nursing homes and pregnant women and children. The largest optional benefit in many states is coverage for critical prescription drug services. In the end, states could find that they have no choice but to raise taxes or cut other important spending priorities, such as education.

Immigration Reform

The federal welfare reform law restricts immigrants' access to a broad range of means-tested programs and these changes comprise 44 percent of the bill's federal savings. For the first time, legal immigrants and most refugees are barred from receiving food stamps and Supplemental Security Income (SSI). The new bars, restrictions, and options will create many challenges for states and localities: potential cost-shifts from federal programs to state and local low-income programs, secondary consequences such as the potential loss of Medicaid benefits for elderly legal immigrants made ineligible for SSI, and new verification mandates for a host of newly-affected benefit programs.

Congress should find ways to correct the severe problems faced by elderly and disabled legal immigrants who were receiving benefits prior to enactment of the law. Most of these individuals will not be physically able to complete citizenship requirements and should not be retroactively denied vital benefits.

Preemptions

Federal Preemption of State and Local Telecommunications Franchising Authority

An attack has been launched on state and local franchising authority on several fronts, including a claim to the Federal Communications Commission (FCC), against the City of Troy, Michigan. This is one of the most sweeping challenges to date of municipal authority to levy franchising and permitting fees on telephone and cable companies. This case could be precedent-setting with regard to any municipal franchising authority provided under state law and could preempt municipal rights-of-way authority under the new Telecommunications Act of 1996. If successful, the challenge to states and local governments could cost millions of dollars in foregone franchise fee revenues and control over public rights-of-way.

The challenge comes as cities enter the next stage of implementation of the new federal law, state implementation and legal challenges. How Governors and state legislatures implement the federal law at the state level will also have far-reaching impacts on city revenues, land use, and zoning authority. Similarly, cities face key tests in federal courts as the industry pursues every avenue to preempt any local control or authority.

This legal action presents the most direct challenge to municipal control of rights-of-way and municipal authority over telephone franchises and permits. The FCC should preserve the authority Congress provided to states and local governments to manage public rights-of-way. Since states and local governments frequently use franchise agreements to manage public rights-of-way, the FCC should support our franchising authority and reject the petition.

Federal Preemption of State and Local Telecommunications Tax Authority

The Cellular Telecommunications Industry Association (CTIA) has filed a petition with the FCC urging the preemption of state and local tax authority, including excise, usage, property, utility, and other taxes and assessments on the wireless telecommunications industry. Describing state and local taxes as a "profound moral hazard," the petition urges the FCC to use the new federal law to craft a "strong federal remedy."

Efforts by the industry to go beyond the law in challenging state and municipal revenue authority could set a key precedent, adversely affecting tens of billions in state and local revenues. Such a decision by the FCC would mark an extraordinary assumption of power and authority by an unelected federal bureaucracy over fundamental and traditional state and local rights and responsibilities. The combined preemption of both state and local taxes could have a profound effect on one of the largest and fastest growing parts of the nation's economy, a change with serious consequences for all other taxpayers. Federal preemption of state and local telecommunications taxes would force states and local governments to significantly increase taxes on other taxpayers or sharply cut services in order to maintain balanced budgets.

CTIA submitted its petition to the FCC on September 25, 1996, asking the FCC to define "discriminatory and excessive taxation," with regard to any taxes affecting the telecommunications industry. Should the FCC respond in the affirmative, the FCC would give to itself the authority to enforce its own standards and policies.

State and local leaders oppose preemptive action by the FCC over state and local taxes. The FCC has no authority over such a fundamental issue as the rights of states and local governments to recover costs for the use of public rights-of-ways or to collect revenues from corporate citizens who make use of state and local services and facilities. The FCC should reject the petition. The President and Congress should make clear that neither the law nor the Constitution provide any authority for the

FCC to address these traditional state and local rights and authorities. We continue to be concerned that other industries, such as wireless and internet, will seek similar exemptions.

Regulations

Clean Air

The Clean Air Act (P.L. 95-95) requires EPA to develop air quality standards that protect public health and requires states, or in some cases, local governments, to develop for federal approval a plan to meet those standards. These plans must include emission limitations for pollution sources, programs to reduce emissions, and schedules for compliance. The Clean Air Act Amendments of 1990 made sweeping changes in the law, by adding significant new requirements, changing deadlines, and mandating new measures on state and local governments. Many of these new requirements are just beginning to be fully implemented and effective.

Under a court order, EPA has recently proposed a significant change in the federal standards for ozone and particulate matter. The court set a deadline of June, 1997 for EPA to finalize the standards. Such a short timetable is unprecedented for a rulemaking of this magnitude. State and local officials strongly support air quality standards that protect public health. However, the scientific underpinning of the proposed new standards has been in dispute. It is clear that the costs of the new standard will be very large, while the benefits, though potentially large, have also been in dispute. Given the importance of these standards and the magnitude of the potential costs and benefits involved, the public needs to be assured that EPA has based its decision on the best possible science and has weighed all relevant factors, including public comments.

We recommend that Congress take steps to ensure that EPA has adequate time to complete the ozone and fine particle rulemaking. The schedule for this and other rulemakings should be based on the time needed to expeditiously consider all relevant evidence and public comments, not on court-ordered deadlines. We also recommend that EPA and Congress take steps to assure public confidence in the scientific underpinnings of the proposed rule, perhaps by asking for a review by the National Academy of Sciences. Further, we ask EPA to identify any unfunded mandates or other administrative burdens for state and local governments in newly-designated and existing nonattainment areas that would result from changes to the ozone and particulate matter rule. Finally, EPA needs to assist states and local governments by demonstrating cost-effective strategies for attaining the new standards, as well as other standards and requirements of the Act.

Fair Labor Standards Act

State and local officials support reforms in the Fair Labor Standards Act (FLSA) and regulations to relieve city, county, state, and other public employers from liability for overtime pay for managerial and supervisory employees. Although the FLSA clearly intended that managerial and supervisory employees be exempt from the overtime pay requirements, a number of flaws in the antiquated Department of Labor regulations have resulted in huge overtime settlements in the courts. Changes in the law and regulations should be made to exempt managers and supervisors from the overtime pay requirements. In addition, changes should be made to permit paramedics to be treated similarly as firefighters with respect to hours worked and overtime pay requirements, clarify that certain limited job-related activities, such as caring for a police dog at home or walking from a prison entrance to a duty station, is not compensable work time, allow public employees to volunteer their time to work on various related activities sponsored by their employers, and allow use of more flexible and family-friendly work scheduled with accounting periods other than the 40-hour work week.

Regulatory Reforms

Like federal budget proposals that must have scorable cost analysis and offsets for new spending, federal agency regulations should not be issued without a similar requirement. All federal regulations should be subject to similar budgetary impacts and vigorous relative risk assessments and cost-benefit analysis. No government activity should be exempt.

State and local officials urge the following regulatory reforms. Federal departments and agencies should be required to use risk assessment, comparative risk assessment, and risk management techniques that include analyses of costs and benefits for all future environmental regulations. Regulatory agencies should certify that a regulation is likely to produce benefits that justify the costs after considering the full scope of qualitative and quantitative costs and benefits, using realistic assumptions, weighing all reasonable alternatives, and exercising sound judgment. Finally, judicial review should be permitted to determine if a regulatory action is arbitrary and capricious. Failure of an agency to conduct a risk assessment, risk comparison, or cost-benefit analysis should be treated as a rebuttable presumption that the final regulation is arbitrary and capricious.

Summary

The foregoing list includes those on which the seven organizations have a consensus. All forms of preemption and mandates from one level of government to another must have a careful analysis of their cumulative cost, together with risk assessments. The taxpayer is not well served by simply pushing costs onto another level of government. The new reality of limited resources at all levels of government must be honestly faced. The optimum health and welfare of the people is not the unique role of the federal government, but all elected officials. These needs go beyond the agendas of single or special interest groups. All governments must now work in partnership with shrinking resources to better serve the public.

Mr. BURTON. Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman. I am looking at this, and I am trying to make certain that it is as beautiful as you say it is, and I want to ask some questions to sort of help me come through this. What about the fees and tuitions for colleges and universities? Has New Jersey increased the tuition or fees paid by college students?

Governor WHITMAN. What I did is, when I first came into office, is revamp the higher education system and the individual universities are now much more independent. College tuitions have generally gone up. They have gone up—although the county colleges, we put a huge investment in last year and this year, and those tuitions did not rise at all either year. Some of our independent and 4-year colleges have gone up, but, at the same time, we have greatly increased our equal opportunity funding and our scholarship programs for students to ensure that they are able to meet those costs.

Mr. TOWNS. What about marriage licenses?

Governor WHITMAN. The cost of a marriage license? I don't know—it is my 25th anniversary next year; I haven't gotten one recently, so I honestly have to tell you——

Mr. TOWNS. A lot of people in New Jersey have gotten them, though.

Governor WHITMAN. Yes, fortunately.

Mr. TOWNS. And that is a way to raise money.

Governor WHITMAN. That is a municipal. The State doesn't collect——

Mr. TOWNS. Well, no, I am thinking about in terms of what municipalities have to do when the State cuts the budget.

Governor WHITMAN. But we haven't cut municipal aid, Congressman. Municipal aid, overall, has gone up in the 6 years that I have been Governor, and, as I said, it is well over $1 billion this year; it is $1.6 billion in municipal aid this year. What we need to see at the municipal level is the same kind of discipline in spending that we have been able to exercise at the State level.

Mr. TOWNS. Let me be quite specific. You know, you indicated that you are urging in terms of the sharing of—to consolidate, and that word sort of bothers me, because certain things, as we know, once they are consolidated, you are talking about schools consolidating and becoming one or maybe two small schools coming together becoming a bigger school. To me, that is not anything I am impressed with, because one thing that we have learned about education is that in smaller schools people learn more. So, I would not be impressed with encouraging those kind of things. So, tell me what you are talking about here.

Governor WHITMAN. Well, Congressman, I can understand what you are saying, and we all appreciate the need for manageable class sizes and the best education for our students, but when you have school districts that have no schools, I think that school district doesn't need to be in existence. When taxpayers have to pay for a district with no school attached to it, because they are regionalized, because they don't have a school there, then I think it is perfectly reasonable to encourage them to talk about sharing services or to do away with that school district, but what we have done is provided $10 million in aid to districts, to school districts and to

counties, to study whether or not consolidation of services is appropriate, and it doesn't mean consolidating school districts, necessary. Perhaps, you can share the food service; perhaps, you can share the janitorial service.

Let me give you an example, not in a school district, but five towns in Hudson County in the northern part of New Jersey came together to regionalize their fire departments, and those are heavily unionized; there are a lot of people involved in that. They were able to get that done at an annual savings that could be as high as $5 million a year to their local constituents, and everyone involved—nobody lost their job; nobody saw a reduction in their salaries because of some aid that we provided them to do this, and they are seeing better service from their fire departments. In fact, they even will point to a life that was saved, because they had better response time from the consolidated service. That kind of thing makes eminent sense to me.

Mr. TOWNS. Still, when it comes to schools, I think you have to be careful with that, because the one thing——

Governor WHITMAN. This is a local decision.

Mr. TOWNS. Yes, well, and I think that it is a local decision, but it is something being encouraged by the State.

Governor WHITMAN. Sure.

Mr. TOWNS. Because when you say—you are part to it, because if you are saying this is what you do, people will respond to that, because, after all, you are the Governor.

Governor WHITMAN. Oh, don't I wish people would respond if I said, "This is what you should do." Unfortunately, they don't.

Mr. TOWNS. Well, if you say consolidate and you save $35 million, that is enough to create an incentive, you know.

Governor WHITMAN. Well, we believe that is appropriate to look at what is appropriate to do. But you have to understand, Congressman, we also have very strict standards for our schools. We have standards and accountability; we have never had that before, and there is nothing under consolidation that would allow for a reduction in the standards, and I want to make sure—coming from a State that when I took office was No. 1 in the Nation on what it spent on its student on average but 37th in what reached the student in the classroom, we weren't doing things right, and we weren't helping our students. So, I believe that we should be willing to look at changes, because, provided, they are geared to helping both the students and the taxpayers, and they can do both of those things.

Mr. TOWNS. Let me raise this one—you know, I am trying to be impressed, but I am having difficulty. It does not make sense to me to continue the tax cuts while at the same time you are increasing the State debt. I am referring to the $2.7 billion in pension bonds issued by the State. You look good, but the next Governor is going to catch hell.

Governor WHITMAN. Actually, it is quite the opposite. The next Governor is going to be in a very good position, and I am glad you brought up the pension bond, because I know a lot of the people who have been doing some of the research on the other side of the aisle have been kind of fixated on that. We had an unfunded pension liability, and I don't know about you, Congressman, but I

think that is a real liability. It was never the intention, I don't believe, of anyone in State government not to fund our pension system, and for them to claim anything else is disingenuous at best. So, that was a liability of the State. We had this liability of $4.25 billion, and it was funded through the pension system at an exorbitant rate of 8.75 percent over a 60-year period. As you know, the economy has gotten better; the market has gotten better, and what we did is we refinanced that. We paid off some of it, because we were able to pay it off. We refinanced it at 7.64 percent, and we reduced the time of the payments to 36 years—32 years, excuse me, and we are saving the taxpayers of the State of New Jersey $47 billion over the life of this. That is a significant saving, and that is an important saving, and unlike what I found when I walked into office—when I walked into the office, the second budget, I was hit with a $400 million unanticipated spike in debt service, left me by the previous administration. These payments, we have paid them, we have frontloaded, so we paid, and now it is going to be smoothed out and subsequent administrations are going to know exactly what they are going to pay. It is less because we were able to well manage this, and, in fact, we have seen an increase and are subject to appropriation debt by the stock market; our rating and our debt has gone up.

Mr. BURTON. Mr. Horn.

Mr. HORN. Thank you, Mr. Chairman. Governor, I have been long impressed with your fine record. You have had a scandal-free administration, and you do deal with the nitty-gritty, and that is what Governors need to do, and I think what you have told us this morning shows you have been very successful. I read with interest your comment when considering what to do with the Federal surplus, "I believe Congress should set aside funding for high priorities like Social Security and education." I agree with you on that, but I would give you another choice, I would be curious and like your advice. Another choice besides tax cuts which affect the present generation, to retire a lot of the national debt which will affect our grandchildren, and since we created most of that debt, and the Congress is the one that created it, that we ought to start retiring that, and I just wonder what your thinking is as to how we balance tax cuts for the current individuals that are working citizens versus retiring the national debt which has a heavy interest load and we could put that to a lot better use.

Governor WHITMAN. Well, Congressman, I appreciate what you are saying, and I well understand the burden of the debt that we all pay for over time, and all that I want to do is to urge you to look at the record of the States where we have cut taxes and see what their impact has been on economic growth. What we need to see is increased growth. I don't believe it is an either or in any of these circumstances, and that is the argument that you hear so much—you can either cut taxes or you can address the debt or you can address Social Security. I can believe that you can do some of almost all of that, and all I am saying is that I believe that tax cuts should be part of the mix that is being considered because of the stimulus they will have to economic growth. We have seen it occur; we have seen increased savings; we have seen increased investment; we have seen increased expenditures in our State which

has given us more in revenue, so that we are able to do more in those areas where we need to do it, and we have reduced some of our debt payments. We have restructured our debt, as the Congressman brought out, and it is a charge that is leveled on a regular basis with some misunderstanding of fact. We have, in fact, been able to restructure that debt in a very positive way. I wouldn't presume to tell you how that balance should be. All I want to indicate is that as we have seen—and you will hear from the other Governors who will be testifying—that tax cuts can stimulate an economy and can provide more in revenues to allow for an even greater attack, perhaps, on the deficit over the years.

Mr. HORN. Well, I thank you for that answer. Let me throw out one other program on the table that I was a strong supporter for, and this is revenue sharing. Revenue sharing occurred because the Ways and Means chairman, Wilbur Mills, decided that you needed to do something to please mayors and, perhaps, Governors, and he quit sitting on that bill, and it lasted from roughly 1973 to 1983 when, unfortunately, a Republican President let the majority in the Congress, which was Democratic, kill it. They have never been for it; the lobbyists all over Washington had never been for it, and yet what it did was return money to the communities, to the States, and they are the people that know what the needs are better than we do sitting in Washington. What do you feel about revenue sharing if we have continuing surpluses?

Governor WHITMAN. Well, I certainly agree that those closest to the problem have a better understanding of how to solve the problem and how to spend the moneys. My argument, I guess, would be, while I certainly would never say no to revenue sharing as the State that gets the least back from the Federal Government—we send about $17 billion more down here a year than we see returned to New Jersey—that we would like to see fewer regulations; we would like to see some of the formulas on programs a little more equitable for our State and that we could do more with that with less regulation. However we get the money back, we will take it, don't get me wrong; I am never going to say no to that, but, again, I believe you can do that within the context of still considering tax cuts, and, to me, from the State of New Jersey's perspective, I don't know that we are going to get a better shot at seeing some more equity than through tax cuts, as, again, we may not send the most down here, but we get the least back than any other State. I want to see my citizens get the kind of relief that they deserve from the Federal Government.

Mr. HORN. Well, thank you very much. Thank you, Mr. Chairman.

Mr. BURTON. Thank you, Mr. Horn. Mr. Ford.

Mr. FORD. Thank you, Mr. Chairman and, Governor, good to see you; glad that you are here. Just to piggyback on what my colleague, Mr. Horn, has said, as you know we are dealing with this issue right now here in the Congress, and all of us, I think, support tax cuts. One of the concerns we have is things are going so well, we know we have these debts and obligations as you have in New Jersey, and some of us on both sides of the aisles just feel that we ought to take care of some of those debts and obligations before we go spending the money. I mean, if you have a family of three chil-

dren that are going to go to college and you hit the lottery, it would be foolish to go to Atlantic City and spend all the money before you take——

Governor WHITMAN. Oh, no, I think you definitely ought to come to Atlantic City to spend it.

Mr. FORD. We would like you to come down to Tunisa, where I am from, if you really want to spend the money. But it would be foolish to go and waste all the money and then come back and complain when you have lost all the money when your kids are getting ready to go to college.

As you know, we are running into a time period where Medicare will run out of money and Social Security is expected to run out of money. The strength of the economy has extended the solvency of both of the programs, we well know, but we are in the process of debating—as we speak, on the floor right now, we are debating the budget resolution rules, and one of the key issues is what Mr. Horn talked about, and I would just like if maybe you could explore it a little further. I know you gave him an answer but we have an $800 billion tax cut that has been put on the floor by my colleagues on the other side of the aisle. I am a new Democrat; I want as many tax cuts as we can possibly get, but, at the same time, I want my kids to be educated, and I want all the other services which you have to balance in New Jersey, and my Governor and the other Governors who will testify before the committee have to figure out how to balance.

My concern is I just don't—I can't for the life of me figure out if we are still running a debt, we know we have obligations—Medicare and Social Security here at the Federal level—you can't answer those questions; I know you want to answer those questions one day, but you can't answer those questions now—but in your State, you were responding to my colleague, Mr. Towns, and I know before he left he asked the question regarding the tax cuts increasing the State debt by 30 percent, and you talked about the restructuring of the debt, but it is our understanding that it will end up costing taxpayers about $10 billion in debt service over the 35-year life of the loan.

Maybe you can address that question as well as maybe give us some guidance up here. I know you folks at the State and local level pretend that we, in the Congress, are kind of neanderthal and have no sense of what is going on at home—I go home every weekend; I take issue with my colleagues who think that we in Washington are ignorant and disconnected from the American people. I am connected to my district, and I think I have a sense of what they want and if they want more dollars, but they also want good schools and good roads and not to have to pay high taxes. So, if you wouldn't mind responding to that meandering question or set of questions that I asked, I would appreciate it.

Governor WHITMAN. Well, the question on the debt is a very real one, and, as I indicated in my previous answers, it is not up to me to give you advice as to how to do it but simply to give you the benefit—to the extent that it is a benefit—of the experience that we have had in the State of New Jersey, and, as I indicated earlier in my answer on the debt is, what we have done in the debt of the State of New Jersey is taken all debt on the books and off the

books and put it on the books. I think it is disingenuous to pretend that something like a pension bond, an ongoing obligation, is not a debt. It is a debt; you are going to pay that to the people who were relying on their pension bond security for their future. We have now fully paid that; that is fully funded, and it appears as debt where it didn't before; it was hidden off the books. There is a total of about $8 billion worth of that that we have been looking at.

So, you need to be honest about what your debt is and pull it all together. As I have indicated, we have been able to restructure that and save on the pension side of it $47 billion and shorten the lifetime of that, but bonding is an important part of government. I also believe very firmly that when you build roads and bridges, when you build schools, when you build prisons, those are things that are going to be enjoyed by future generations and just as many—there are very few people who can afford to pay for their house all up front and take the mortgage over time and particularly for new construction. We are doing the same thing, and that is appropriate. What you want to do is maintain it as a reasonable percentage of your appropriations, and we have maintained debt at just below 3 percent of our appropriations. That is where it stayed throughout my administration; that is where it was before, and that is manageable. It wouldn't be good fiscal policy if you were to say that you will never have a debt. There is going to be some debt, and as long as it is a bonded obligation for appropriate things that the people want and need that will be used over time and out the long-term, then I think there is nothing wrong with that as long as you keep it as a manageable percentage of your overall revenues and expenditures, and, as I say, we have it at just under 3 percent and find that to be a manageable amount, and we think it is the appropriate amount.

Mr. FORD. Would you advocate that we do something similar to that here at the Federal level?

Governor WHITMAN. Your ability to control spending is very different than mine, and, therefore, I can only say that that kind of thing works well in our State. You will be hearing from other Governors who might have a slightly different balance ration than we do, but that certainly is one that is manageable for the State of New Jersey.

Mr. FORD. You Governors are very interesting people. You tell us the things that you think we are doing that are working but won't tell us the things that we ought to be doing and you know that we ought to be doing.

Last question, just sort of in a different issue with regard to education. We have a raging debate happening here in the Congress now and will come up. I serve on the Education Committee as well, Governor, and we will talk about the reorganization of ESCA very soon. What are your thoughts about a Federal role in education? I know some of us believe that the Federal Government can build prisons and roads and highways, and, perhaps, we ought to at a minimum explore and, perhaps, begin helping local and State governments find or create avenues to pay for school construction, and, as you know, the President's regime is calling for more accountability, tying that to funds and rewarding schools and school dis-

tricts that are doing the right thing, and you sound as if you have a great interest and passion in doing the right thing and have been doing some good things.

Governor WHITMAN. Well, Congressman, I have to tell you that the concern I have is when I hear things like a little more control and management. We have spent a long time in New Jersey in developing our core standards in seven academic areas that I mentioned before, and they are very comprehensive. I would be very upset if the Federal Government told me I couldn't get Federal money if I didn't change those standards to meet something that the Federal Government had come up with, and almost every State that I know—it doesn't matter whether the Governor is Republican or Democrat; Jim Hunt has been at the forefront of educational processes. They have made real changes within their State educational systems and structures in order to enhance the education to our kids, and while the Federal Government, I believe, has the potential for a wonderful role of bringing in a lot of information, what are we competing against? What is happening in Japan and Germany? That is where our kids are going to have—they are going to have to be as smart as kids anywhere in the world, and each State can't reinvent that or do all the research that is necessary to find out how we continue to keep our standards at a world-class level, and that is where the Federal Government can help. Obviously, the Federal Government can help with dollars, it always can, but when they come with too much prescription that requires that you can only have certain kind of class days or class sizes or certain types of standards, that is when it starts to get away from what I think we have all thought education should be, is that the local determine with some overarching policy that ensures that children are getting the kind of education that will enable them to compete in the 21st century.

So, as you look at this, my real concern is, well, I don't believe we should ever get dollars at the State level that come with nothing; just spend it on anything you want. I don't expect that to happen; I don't think it would be appropriate.

Mr. FORD. You are the first Governor to say that; we ought to mark that down, Mr. Chairman.

Governor WHITMAN. Well, it is something I have said over and over, and I wouldn't expect anything less from a responsible Congress, but I would also urge you to understand that the varieties not just between States but within school districts within States is such that it is very difficult to come up with Federal standards that aren't going to end up causing us to spend more time and more money just filling out papers and trying to reconfigure education to fit those molds than really making a difference in the classroom for the child.

Mr. FORD. Thank you, Governor; thank you, Mr. Chairman.

Mr. BURTON. Thank you. Mr. Kucinich.

Mr. KUCINICH. Thank you, Mr. Chairman. I just wanted to welcome the Governor, and, Mr. Chairman, I have a statement I will ask to be put in the record. Thank you.

Mr. BURTON. Without objection.

[The prepared statement of Hon. Dennis J. Kucinich follows:]

Statement of Rep. Dennis Kucinich
Committee on Government Reform
April 14, 1999

Thank you, Mr. Chairman, for holding this hearing on tax reform in the states. I agree that we, in Congress, can learn a lot from governors and other state and local government officials. I'm sure that there are a number of Democratic governors, in addition to the Republican governors that we are hearing from today, who could also teach us a thing or two about cutting taxes in a responsible way without jeopardizing the important services that our states provide to their residents.

I also hope that when we hear from these distinguished governors today, we will keep in mind why these tax cuts are possible. Under the Clinton Administration, we are experiencing the longest peacetime economic expansion in history. With strong economic growth comes increased tax revenues. And higher tax revenues means that states have extra money with which to offer tax cuts.

Even with tax cuts, April 15 will still not so lovingly referred to as "tax day." Many Americans will stay up late filling out their tax forms and writing their checks. And I believe that this burden -- the paperwork burden -- also needs to be addressed.

The paperwork burden placed on the American taxpayer by the IRS is nearly 80% of the total paperwork burden imposed by the federal government. Unfortunately, over the last 3 years, the IRS paperwork burden has increased by 7.5%.

It is my understanding that much of the increase is due to our actions here in Congress. For instance, Congress passed the Taxpayer Relief Act of 1997 -- an initiative originally proposed as part of the Republican Contract with America -- which cuts capital gains, estate, and gift taxes. The IRS estimates that these changes increased the paperwork burden by over 64 million hours. Similarly, last year, we passed the IRS Restructuring and Reform Act -- with my support -- which prohibits politically motivated audits, creates an oversight board and Taxpayer Advocate, and creates and strengthens taxpayers rights when dealing with the IRS. However, this initiative also increased the paperwork burden by another 92 million hours. These two changes, alone, account for more than 1% of the 7.5% burden increase we have seen over the last 3 years.

Much of the remaining increase may be due to the increased economic activity in our booming national economy. Furthermore, the methodology for estimating the paperwork burden may not be giving enough credit for the time saved by the increase in the use of electronic and telephone filing. I look forward to hearing from the witnesses who can provide further insight into underlying causes of the increased paperwork burden.

Thank you, again, for holding this hearing and I look forward to the testimony.

Mr. BURTON. Governor Whitman, you have been an excellent witness, and you sure know your facts, and we really appreciate that. You have been a big help. You have proved your critics incorrect when you got elected and cut taxes and stimulated economic growth in your State, and you are to be congratulated, and I will look forward to working with you in the future.

We will stand in recess until this afternoon when we will hear from Governor Huckabee.

Governor WHITMAN. Wonderful, thank you very much for the opportunity; I appreciate it.

[Recess.]

Mr. BURTON [presiding]. Governor Huckabee, welcome. Sorry for the delay. We have, on the floor, one of our census bills, and, as a result, we have a number of our Members who are members of our subcommittee that are down there debating and discussing that issue, because it is very controversial. It involves allowing local mayors and local officials to have a voice in the census, and so you will see Members coming in and out, and that is the reason why we don't have a lot of Members. On the Democrat side, I don't think they are of a mind to give a lot of credence to what our Republican Governors are saying, so that is why you won't see a lot of those Members.

Before I yield to my colleague for your introduction, Governor, we really appreciate you testifying, and your information will be regarded by all the Members as very important, for the record.

Governor Huckabee was the Lieutenant Governor of Arkansas in July 1996 and became Governor when Jim "Guy" Tucker, resigned, and, as you said in your news conference with us awhile ago, you are the first Governor, I guess, in history to cut taxes, and I am sure that was popular, and we are very happy about that. I would like to tell you, Governor, that in addition to having some very fine representatives from Arkansas representing your State, this fellow right here is from Magnolia, AR, and he is one of our strong right arms on the committee, and he does a great job. He told me to tell you that. I don't know why. Maybe he has political ambitions. [Laughter.]

And, with that, let me just say, I want to welcome you to the committee. We appreciate you being here. I know it is a big imposition for you to come all the way from Arkansas, and, with that, let me introduce Asa Hutchinson to welcome you.

Mr. HUTCHINSON. Thank you, Mr. Chairman, and I appreciate this privilege and express my greetings to Jay Dickey, my colleague, who is at the table as well. I am delighted to have this opportunity to introduce my friend and the Governor of our State, Mike Huckabee. I want to congratulate you first for the outstanding session that you just completed that drew bipartisan praise from all areas for the leadership that you provided in passing a much needed highway program, providing tax relief initiatives I know that you will talk about, including deregulation of the electric industry, and more realistic laws dealing with teen violence. You are dealing with the same issues that we are trying to address here in Congress, but you have had a very successful session, and all of those were achieved under a balanced budget.

I have known Governor Huckabee since he first entered public life. From the beginning, Governor Huckabee demonstrated leadership and personal strength in his service to the people of Arkansas. This was apparent during the turbulent days and the transition after the resignation of former Governor Jim "Guy" Tucker when then Lieutenant Governor Mike Huckabee avoided a constitutional crisis by his firm and principled address to the people of Arkansas leading us out of that unfortunate circumstance, and since that time, the Governor has led a number of successful and innovative initiatives into law. I think that his success shows that by applying a little common sense to the everyday function of government, we can, in fact, provide better services with less bureaucracy and lower taxes.

During his tenure, Governor Huckabee has overseen a comprehensive tax relief package that we are unaccustomed to seeing in Arkansas that included as one of his initiatives the elimination of the marriage penalty. This is a goal that we have been pursuing here in Congress, and I am greatly interested in hearing the Governor's insights on this matter.

Again, Governor, I congratulate you on providing better government services at lower taxpayer cost. That should be the goal of everyone who works in government, and I and my colleagues look forward to hearing from you about which way we, in Congress, might incorporate some of the initiatives that you have been so successful in in Arkansas. Thank you, Mr. Chairman.

Mr. BURTON. Thank you, Representative Hutchinson. And, with that, Governor, welcome, and we would enjoy hearing your remarks.

STATEMENT OF MIKE HUCKABEE, GOVERNOR, ARKANSAS

Governor HUCKABEE. Thank you, Mr. Chairman. I want to say to you and the members of the committee a special thanks for giving me the opportunity. Quite frankly, hearing that wonderful introduction was worth the trip to Washington, and if my good friend and colleague will promise to give it again, I may show up again.

I am really proud of my home State and particularly proud of two of our Congressmen that I call friends, very close friends while I have campaigned and worked and been able to see some things happen with Arkansas. Asa Hutchinson and Jay Dickey who sits here today I hope as my friend and colleague. Having watched many hearings on television, I expect him to whisper in my ear and tell me what I am supposed to say as we go through this hearing today.

I do want to express that as we approach tomorrow and what is not so, perhaps, popularly known as tax day, many Americans will be reaching for their checkbooks and also for their antacids, recognizing that it is going to be time to once again face the music of that tax system in our country.

In the States, we have been able to bring about some things that we hope will happen in epidemic proportion across the country, and that is a real sense of bringing fairness back to the American family. I would like to try to remind people in talking of tax cuts that it is really a matter of shifting the power from government to families and from government to individuals, because tax cuts are real-

ly not just an economic issue; they are an issue about giving people the power to spend the money that they, in fact, have gone out and worked very hard to earn in the first place.

I sometimes get amazed that government can operate in what amounts to, at times, a vacuum, and, in our State, one of the things that we have done to try to combat that is to require every one in the executive branch of government who has a job at policy level or above to get out and go to work one-half day every month in some State agency in which their particular has a relationship. That includes, by the way, the Governor, and over the past 2½ years in my tenure as Governor, I have worked at the counter of a tourist information center and passed out literature to guests who were coming into our State, some of whom were rather surprised to find that the person behind the counter passing out brochures and maps was, in fact, the Governor. I think they thought that maybe it was a moonlighting job for me, but it was quite an experience.

I have also spent time being an intake worker at a local Department of Human Services office, literally talking to welfare moms and taking down the information over the telephone or in person that would become part of their entry level form.

I have spent time at a Department of Finance and Administration counter making driver's licenses and photographing people for their driver's license, and it was that particular experience that led us to make a major change in the process by which people get car tags in Arkansas, a process that we would like to say was invented by the Flintstones; it had never been approved until 2 years ago when we changed the system from the most cumbersome, time-consuming, bothersome process in the whole world, one that was cursed by every Arkansan at the time of renewal, to the countries most efficient and technologically advanced system that truly has created a whole new way of doing things through the Internet or a touch-tone telephone without ever leaving one's home, instead of the seven pieces of paper that were required to be obtained from six different locations prior to getting a car tag. And the interesting thing is that we were able to make the significant changes in efficiency and do it and cut the cost of it by at least a dollar for Arkansans.

I have also spent time checking licenses on the Little Red River in Arkansas with wildlife enforcement officers in a variety of duties. Enrolling students in the University of Arkansas has been another one of my job assignments.

But in every one of those, what I have learned is that government, in order to be more efficient, needs to understand that its basic purpose is not to see how much money it can make and take, but rather to see how much money it can give back to its citizens and leave in their hands to being with.

When I became Governor in 1996, there had never been a significant tax cut in the history of our State. I will never forget the conversation that I had with our director of finance administration, and as we were preparing for the session, I said, "Richard, tell me, how many times have we had a tax cut in Arkansas?" He looked at me; he looked at his deputy; he looked back at me, and he said, "Well, Governor, we have never had one." Well, in 1997, we finally

had one, and for the first time, we were able to bring taxes to a new level of at least becoming more fair.

Some of those tax provisions included the elimination of the marriage penalty. We also created tax relief for the poor by exempting people below the poverty line from any State income tax. We indexed the income tax rates in Arkansas, the first time that that had been done since 1971. We doubled the dependent child care credit in our State. We also, in order to correlate with Federal, law exempted capital gains on the sale of personal residence. We saw additional relief to Arkansas' elderly population by creating what we call the Circuit Breaker Act, providing cash rebates to low income Arkansas taxpayers who are 62 and older. These rebates were based on their real property tax which was paid on their personal residence. We also passed a bill that created the working taxpayer credit. The credit was based on a portion of the Social Security tax that was provided—or paid to provide the retirement benefits.

All of those tax reforms were in the first session that we had in Arkansas and which I was Governor, and I want to say that it was a bipartisan effort that made that possible, and I know that your committee has to look at things in that fashion. It is very important to know this that I didn't do that by myself, and I preside over the most lopsided legislature in the entire country. There are more Democrats and fewer Republicans in our State legislature than any other legislature in the country, and yet we were able to bring about tax cuts, and so I think it is important for me to tell you that even though I am a Republican Governor, this is not about parties, this is about the principle of giving people back the money that they have earned, and I couldn't have seen that through had it not been for Democrats who agree with me that individuals and families should be empowered to spend their own money, and, for that, I am grateful for our legislature in recognizing that.

In the most recent legislative session, we were able to make some other strides in tax reform. We fought for a long time for capital gains tax reduction. I believe it is as much an economic development incentive issue as it is a tax issue, but we were able to, for the first time, cut capital gains taxes across the board by 30 percent, and, quite frankly, our hope is to eventually eliminate capital gains taxes altogether, and I believe, and I believe many of the colleagues in the legislature join with me in believing that in doing so, the ultimate benefit will be greater investment and a much more stimulated economy which will not result in fewer dollars of revenue but greater dollars of revenue in the long run, not only for the Treasury to operate our schools and to provide for highways and basic human services that are needed, but also which will provide for a greater stimulation in the private sector and in the market-based economy.

In all, the tax cuts that we have enacted went to the heart of an issue that is very much on the surface in Arkansas right now, and that is property taxes, and even though Arkansas property taxes are probably not the highest; in fact, they are not very high at all compared to many other States, the process of their actual execution—I use that word advisedly—are some of the most onerous in the country, because they are so varied from county to county, and

one of the things we did in this most recent session was to create a uniformity in the system. We established the property taxpayers' bill of rights, and we brought about a proposal that will be an amendment to our constitution in the 2000 election which, if passed, would provide about $325 per homeowner of tax relief. All of those issues are issues that happened because we worked in nonpartisan spirit. It was not so much that we divided ourselves up and said let us work together. We simply looked at the issues and decided that tax fairness and tax reform would be good for Arkansas whether it was good for any of our political careers, but, quite frankly, I don't know of anyone who was ever defeated in politics for proposing that the government took too much money and that people needed some of it back.

My purpose today in being here is to express, first of all, my appreciation to you, Mr. Chairman, and to the members of this committee for your diligence in trying to bring about true reform in government, to make it so that the States will have the empowerment to carry out programs like welfare reform, which thanks to the Congress working with us, is working. We have seen 44 percent of the welfare rolls cleaned up in Arkansas in a year and a half of implementation. Many of the critics of welfare reform said if we did that, if we cut taxes, if we reformed welfare and caused people—forced them to go to work, and if we did that at the same time, that what we would end up with is huge unemployment lines. Mr. Chairman, I am happy to report to you that today in Arkansas, we have the lowest unemployment rates in the history of our entire State, and we have the highest earning rates for people in our State; the lowest number of people in poverty, and last year, we had a record number of new job creations, many of which were jobs created in the technology sector; those jobs paying sometimes as much as 50 percent of the base level salary that Arkansans had previously enjoyed.

So, I think what we are proving is that responsible government, which includes tax cuts, the form of the system, localized control as much as possible, is not a detriment to good government or their economy, but is, in fact, the only thing that really does make it work.

I know that there may be some questions. I would like to conclude my remarks with something that I hope you find, perhaps, a bit enjoyable. A friend sent it to me, and I couldn't help but think how appropriate it was in light of our conversation on taxes today, and it is a story of what would be if Noah were to be instructed by the Lord to build the Ark in today's modern times, and I thought it might be a nice closing comment for me to make.

And the Lord spoke to Noah and said, "Noah, in 6 months, I am going to make it rain until the whole world is filled with water and all the evil things are destroyed, but I want to save a few good people and two of every living thing on the planet. I am ordering you, I want you to build an ark," and in a flash of lightening, he delivered the specifications for the ark. "OK," Noah said, trembling with fear and fumbling with the blueprints, "I am your guy." "Six months and it starts to rain," thundered the Lord, "and you better have completed my ark or learned to swim for a long, long time." Six months passed, the sky began to cloud up, and the rain fell in

torrents. The Lord looked down and he saw Noah sitting in his yard weeping, and there was no ark. "Noah," shouted the Lord, "where is my ark?" A lightening bolt crashed into the ground beside Noah. "Lord, please forgive me," begged Noah, "I did my best, but there were some big problems. First, I had to get a building permit for the ark's construction, but your plans didn't meet their code. So, then I had to hire an engineer to redo the plans only to get in a long argument with him about whether to include a fire sprinkler system. Then my neighbors objected, claiming that I was violating zoning ordinances by building the ark in my front year, so I had to apply for a variance from the city planning board. Then I had a big problem getting enough wood for the ark, because there was a ban on cutting trees to save the spotted owl. I tried to convince the environmentalists and the U.S. Fish and Wildlife Service that I needed that wood to save the owls, but they wouldn't let me catch them, so, I am sorry, Lord, but no owls. Next, I started gathering up the animals, but I got sued by an animal rights group that objected to me taking along just two of each kind, and just when that suit got dismissed, the EPA notified me that they couldn't complete the ark without filing an environmental impact statement on your proposed flood. They didn't take too kindly to the idea that they had no jurisdiction over the conduct of a supreme being. It was then that the core of engineers wanted the map of the proposed flood plain; I sent them a globe. Right now, Lord, I am trying to resolve a complaint with the Equal Opportunities Commission over how many minorities I am supposed to hire. The IRS has seized all my assets, claiming I am trying to leave the country, and I just got a notice from the State that I owe some kind of use tax. Lord, really, I don't think I can finish the ark in any less than 5 years" And, with that, the sky cleared, the sun began to shine, and a large rainbow arched across the sky. Noah looked up and he smiled, "You mean, God, you are not going to destroy the world?" he asked, hopefully. "No," said the Lord, "the government already has."

And, with that, Mr. Chairman, I will conclude and receive questions.

[The prepared statement of Governor Huckabee follows:]

Testimony of Arkansas Gov. Mike Huckabee
House Committee on Government Reform
April 14, 1999

Mr. Chairman and members of the committee, it is a pleasure to appear before you today. I thank you for the opportunity to tell you what we have done in Arkansas during the past two years to provide tax relief and make Arkansas government more accountable and efficient.

I appreciate that this committee realizes that many of the solutions to the problems facing our country are found at the state and local levels. I believe all of us in this room would be quick to admit that all wisdom does not rest in Washington. With the tax deadline looming tomorrow, I am painfully aware of how much of Arkansans' hard-earned money goes to Washington to fund federal programs and mandates. It is a good thing when you look to the state level for innovative programs that can be adopted at the federal level.

It sometimes amazes me how government problems that have existed for years can be solved with just a little bit of common sense and teamwork. In my office, we have a rule that everyone involved in making policy has to spend at least half a day once every six weeks working in a state department or agency. This half day is not to be spent listening to briefings from an agency director while drinking coffee in some well-appointed conference room. It is to be spent at the service delivery level. That directive to get out of the Capitol includes the governor. I have worked behind the counter at a tourist information center. I have registered students at the University of Arkansas. I have checked licenses with wildlife enforcement officers along the Little Red River. One of my first work days as governor in 1996 was at a state revenue office at Marion in east Arkansas. For years, Arkansas motorists had fantasized about a more efficient and less cumbersome way to renew their car tags. The old system was at best a half-day process. You had to find an inspection station and get your car or truck inspected. You

then had to go to the courthouse to get proof that your property taxes had been assessed in the assessor's office and proof that those taxes had been paid in the collector's office. Then it was on to the revenue office to wait in a long line, only to be sent back if all your papers were not in order. Let's not forget that you also had to have proof of insurance with you.

Those revenue office workers at Marion gave us the solution. Now, you can renew your car tags in Arkansas on the phone, on your personal computer or through the mail. Just dial up a number, have your credit card number ready and you will be finished in less than three minutes. And we're doing it for $1 less than before. That's making government simpler. That's making government more efficient. That's making life easier for those who foot the bills. It is the kind of thing we should be doing as elected officials. And it happened because we took the time to get out of those marble halls at the Capitol, go into the offices of the people who had to actually administer the convoluted system that had been created and simply listen to them.

Thank you, in turn, for listening to us as governors today and tomorrow. I think we have done some things at the state level that will give you ideas at the federal level. This is especially true of tax reform, where governors across the country have been on the cutting edge of not only making the tax structure more fair but also of reducing the burden on taxpayers. I would like to talk about some of the reforms we have instituted in Arkansas during the past three years.

To better understand these reforms, you need a basic understanding of Arkansas' tax system. Picture a three-legged stool. One leg represents income tax, another represents Arkansas' sales tax and the third represents property tax. If any of these legs is removed or greatly shortened, the stool would be off-balance. Each area of revenue is equally needed to provide the essential services necessary to the people of my state. Therefore, tax relief and reform have to be carefully crafted so they are responsible.

REAL TAX RELIEF FOR ARKANSAS FAMILIES (1997 SESSION)

In the 1997 legislative session, my first as governor, we passed a comprehensive income-tax relief package, marking the first time in Arkansas' history that the state had seen a major, broad-based income tax cut. This $90.6 million tax relief measure lessened the tax burden on Arkansans in many ways.

ELIMINATION OF THE MARRIAGE PENALTY

We increased the standard income tax deduction from $1,000 to $2,000 per taxpayer. Under previous law, married couples were allowed a total standard deduction of $1,000. With this change, a married couple receives a $2,000 per person deduction or $4,000 per couple, an increase of $3,000 per couple. This could save up to $210 in income tax for a married couple. No longer does our state tax code punish a couple for being married. We need to reward couples for getting married and raising children in a family setting. Too often, our government policies do just the opposite.

TAX RELIEF FOR THE POOR

Those below the poverty line were exempted from the state income tax. The reduced tax tables were adjusted for all taxpayers to incorporate the new standard deduction amounts and a tax credit based on Social Security taxes paid. Taxpayers now receive a tax credit based on a percentage of the Social Security taxes they pay to the federal government.

INDEXING INCOME TAX RATES

To prevent taxpayers from creeping into higher tax brackets as a result of inflation, we indexed the regular income tax brackets. Indexing is performed each year beginning in 1999 and is based on the positive change in the Consumer Price Index. The maximum percentage of change allowable is 3 percent a year.

DOUBLED DEPENDENT CHILD CARE CREDIT

Arkansas uses the federal credit for child and dependent care as a basis to compute the Arkansas child and dependent care credit. In the 1997 session, we increased the available credit by doubling from 10 percent to 20 percent the amount of federal credit allowable. This is yet another example of making government policies friendlier for parents raising children.

CAPITAL GAINS EXEMPTION FOR SALE OF PERSONAL RESIDENCE

We eliminated the capital gains tax on the sale of homes. If the property was owned and occupied as the taxpayer's main residence for three of the five years preceding the sale, the gain from the sale is exempt. We also allowed the gain to be deferred for qualifying taxpayers who do not meet the new holding period requirements.

ADDITIONAL RELIEF TO ARKANSAS' ELDERLY

Additionally, we increased the qualifying income level and maximum rebate allowable under Arkansas' circuit breaker act. The circuit breaker act provides cash rebates to low-income Arkansas taxpayers 62 and older based on their real property tax paid on their personal residence.

WORKING TAXPAYER CREDIT

We also enacted a special working taxpayer credit. This credit is based on the portion of Social Security tax that is paid to provide retirement benefits. Taxpayers receive a credit equal to 2 percent of the Social Security tax paid. The credit is allowed on the first $40,000 of earned income. Taxpayers who qualify for the special reduced tax rate tables receive a credit equal to 4 percent of their earned income.

RESPONSIBLE REFORM AND RELIEF

It is of special note that this $90.6 million in relief was given to taxpayers in a responsible manner. Arkansas law mandates that we have a balanced budget. In both 1997 and 1999, we

produced balanced budgets with tax relief provided for in the budgets. In other words, we budgeted tax relief. By finding savings to pay for new programs, we proved it possible to propose new, needed programs by reallocating resources while still providing tax relief. This has never before been done in Arkansas.

STREAMLINING ARKANSAS' CAR TAG RENEWAL SYSTEM

While tax relief was significant, our most revolutionary governmental reform was the streamlining of Arkansas' car tag renewal system, a reform I talked about earlier. Motorists often had to visit three government offices the old system. All this just so they could purchase their annual renewal decals. Needless to say, motorists were not happy with the process they had to endure to meet what should have been a relatively simple obligation.

On March 31, 1997, I signed into law a bill creating the Streamlined Auto Renewal System, dubbed the STAR system. The law included a mandatory implementation date of Jan. 1, 1999, and meeting the statutory deadline was not a simple task. But Arkansas motorists now have cause to celebrate. The ineffective vehicle safety inspection requirement has been eliminated, and through STAR, the information taxpayers were previously required to present in person is provided by a statewide computer network.

To meet the Jan. 1, 1999, deadline, a number of major roadblocks had to be removed. The first was automating the process for obtaining proof of auto liability insurance. There are more than 325 insurance companies providing auto liability insurance coverage in Arkansas, each with its own computer system. The state had to develop a process that would permit each company to perform automated, monthly updating of a state insurance database. This was programmed and implemented by Jan. 1, 1998, a period of less than nine months.

The biggest challenge was automating proof of assessment and payment of personal property taxes. To appreciate the magnitude of this challenge, you must realize that the personal property tax process in Arkansas is, by constitutional mandate, administered by the counties. Arkansas has 75 locally elected county assessors and 75 locally elected county collectors. These elected officials utilize 27 independent, commercial software providers to support and maintain their personal property tax systems. Every one of these 150 assessor/collector systems had to be replaced or substantially modified to utilize the state's telecommunications network for transmitting county personal property tax data into a state-maintained, personal property tax database. While these efforts were under way during the fall of 1997 and throughout 1998, a parallel effort was being played out in the 143 state revenue offices across the state. As annual tag renewals were being processed, revenue office personnel were entering county personal property tax account information into the vehicle registration records.

The third essential part of the process was giving motorists alternatives to standing in line to renew their car tags. That was accomplished by partnering with private enterprise. Through a contract with IBM, Arkansas residents are provided 24-hour access to the STAR system via telephone or the Internet. This service was implemented on Jan. 1, 1999, making it possible for Arkansas residents to renew their car tags in five minutes or less from virtually anywhere in the world. They pay by credit card and receive their new decals by mail within five days.

Obviously, changing the process and overhauling the affected computer systems in the given time frame was no simple task, and what Arkansas did in less than two years could have realistically taken five years to accomplish. But the results are giving Arkansas motorists what they had been wanting for many years – simple alternatives to standing in line.

With implementation of STAR, renewal processing by phone and Internet is rapidly catching on. Arkansas is one of only a few states offering both options, and one of even fewer that does not charge customers a service fee or registration surcharge for using the phone or Internet to renew. Charging citizens extra to use automated services such as these is counterproductive to improving government efficiency. As in any business, if you make it possible for customers to effectively serve themselves, it will cost you less than serving customers in person.

There are two extra bonuses for Arkansas residents as a result of STAR. First is the savings in time and effort enjoyed by our citizens when they renew their car tags. There is no doubt the savings in wasted time alone will be worth millions of dollars in increased productivity each year. The second bonus is a $1 net reduction in the annual cost of renewing as a result of eliminating the annual safety inspection requirement. This is a real cash savings for our citizens of more than $2.5 million dollars per year.

The Arkansas STAR system is providing our citizens with better, faster and cheaper services than they ever had before. It is a clear example of what government can do when the challenge is faced and the commitment is made to overcome every obstacle in meeting that challenge.

1999 LEGISLATIVE SESSION

Just last week, we completed our 1999 legislative session. In just three months, we accomplished a great deal of tax reform. During the session, acts were passed that adopted the new federal Roth IRA provisions and the educational IRA provisions. Also, the $6,000 per taxpayer exemption for income from employer-sponsored pension plans was extended to include income from individual retirement accounts. Legislation was also considered or enacted to:

1. Reduce the capital gains tax and simplify capital gains tax computation;
2. Increase the credit for dependents from $20 to $30 per dependent;
3. Increase the percentage of child care credit from 20 percent of the federal credit to 30 percent of the federal credit;
4. Extend the circuit breaker to taxpayers 62 and older with total income of $25,000 or less;
5. Extend the circuit breaker to disabled taxpayers;
6. Repeal the sales tax on food.

CAPITAL GAINS TAX INVESTMENT INCENTIVE

In June 1998, I sponsored a summit on economic development at which hundreds of community, business and government leaders came together to discuss the best course for Arkansas as it moves into the 21st century. During the summit it became clear to all that one of the chief impediments to growth in Arkansas is the income tax on capital gains.

The capital gains tax adds about $50 million to the state treasury, but as the summit made clear, it costs Arkansans far more. The federal capital gains tax, now 20 percent, affects everyone. But Arkansas' additional 6 percent levy is a high hurdle for businesses to clear, particularly while neighboring Texas and Tennessee do not tax capital gains at all and Mississippi does not tax in-state investments. Despite the fact that economic development is one of the state's priorities, Arkansas' capital gains tax both repels outside businesses and actually gives Arkansas businesses an incentive to relocate out of state.

Notable business leaders and economists consider Arkansas' taxation of capital gains archaic and counterproductive to economic development. Taxing capital gains impedes savings and capital formation while ultimately inhibiting investment. Investors are reluctant to shift from

one investment to another for fear of the accompanying tax bill. Capital then becomes locked into unproductive uses. Start-up companies bear much of this burden as investors become few and far between.

Cutting capital gains taxes would spur economic growth and increase savings by reducing the cost of capital and increasing investment. In turn, labor productivity would rise along with income levels.

As a result of summit findings, I proposed the complete elimination of income tax on capital gains for individual taxpayers. This elimination will be phased in beginning in tax year 1999 with an exclusion of 30 percent of capital gains from taxation and a simplification of the capital gains tax computation for taxpayers. I plan to address further reduction of the capital gains tax when the Legislature convenes in 2001.

BROAD-BASED PROPERTY TAX REFORM FOR ARKANSAS

Much of our tax reform efforts during this year's session focused on Arkansas' property tax system. Property taxpayers were justifiably upset over large and abrupt tax increases resulting from increasing property values coupled with long spans between reassessments. As a result of these increases, a property taxpayer revolt led to a constitutional initiative to totally eliminate property taxes in Arkansas and to implement a 1 7/8 cents sales tax. That initiative was thrown off the November 1998 ballot by the Arkansas Supreme Court. It might have passed had it remained on the ballot.

To understand the severity of the situation, think back to the three-legged stool analogy. Proponents of this initiative wanted to chop off the property tax leg and lengthen the sales tax leg. The problem with this strategy was that under the best scenario, Arkansas would have been left with a $300 million shortfall. Last year, property taxes brought in $983 million, of which

$745 million went directly to Arkansas schools. We simply could not risk the ramifications of this size of shortfall.

Going into the 1999 legislative session, we knew we had to do something to eliminate the inequities in Arkansas' property tax system. We also understood that much of the frustration over property taxes in Arkansas was a direct result of problems with appraisals and the assessment system rather than with property taxes in general. Taxpayers are rightly distressed by the inequities that result when property values are not kept up-to-date for many years and sudden, large increases in assessments are made. To older retired citizens on fixed incomes, these increases can be devastating.

To address these concerns, we proposed the following measures in the 1999 legislative session:

1. A Property Taxpayers' Bill of Rights designed to bring fairness to all Arkansas property owners;
2. A cap on residential real property assessments for citizens 65 and older;
3. A measure to repair constitutional flaws in the property tax system;
4. A major property tax relief package; and
5. A reorganization of the property valuation system that will keep assessments fair and up-to-date.

A PROPERTY TAXPAYERS' BILL OF RIGHTS

The Property Taxpayers' Bill of Rights establishes a uniform notice and due-process procedure guaranteeing citizens they will be treated fairly in assessment of property taxes. It provides a fairer, more user-friendly process for taxpayers to appeal the valuation of their property, including easier access to the appeals process and a consistent written standard for the property

owner to prevail. It also gives property owners the opportunity to better understand what their local taxes are used for by specifying what portion of their total tax bill goes to each unit of local government. The Taxpayers' Bill of Rights is a step toward eliminating inequitable assessments and an empowerment of taxpayers in the increasingly complex world of property taxation.

The Bill of Rights includes the following provisions:

1. Property owners will be taxed fairly and assessed equitably throughout the state;
2. Property owners will have access to information concerning how the system of property taxation works and how tax dollars are spent;
3. Property owners will participate in the determination of tax rates or millage rates levied in local taxing units;
4. There will be fair and courteous treatment throughout the property tax system;
5. Property owners will be allowed to review the reassessments and methodology used in determining the value of their properties and that of comparable properties;
6. Property owners are entitled to a prompt response by government officials to inquiries regarding the valuation of their properties;
7. Government officials or others responsible for valuation of property will be required to review and correct any measurement error to the nearest foot, clerical error or other technical error that occurred in the valuation of property;
8. Property owners will be sent a notice setting forth the following:

   (A) The amount of any change in property value;

   (B) Their right to appeal such a change; and

(C) The procedures that must be followed on appeal, including the name, title, address and telephone number of the secretary of the equalization board to whom the appeal and any supporting documentation should be directed, the deadline for requesting a hearing and the proof required for adjustment of value;

9. Property owners will be allowed to complete all steps in the appeals process before paying any disputed taxes;

10. Property owners will receive written notification of the outcome of any appeal; and

11. Property owners will recover any overpayment of taxes resulting from erroneous assessments within three years after payment.

We are requiring all assessors' and collectors' offices in Arkansas to prominently display these rights.

REFORMING PROPERTY TAXES - AMENDING THE ARKANSAS CONSTITUTION

Knowing that a lack of predictability contributed to public dissatisfaction with the current system and fostered a movement to abolish the property tax altogether, we proposed a constitutional amendment intended to restrain wildly fluctuating revenue growth. If adopted in November 2000 by voters, the amendment will:

1. Limit owner-occupied housing assessments growth to 5 percent per year and all other properties to growth of 10 percent per year. Assessments will continue to grow annually until they equal market value. These restraints will not apply in counties that have not recently reappraised, but property owners in those counties will receive a tax rate reduction partially offsetting the value increases.

2. Target home owners for further relief by providing a property tax credit of $300.

3. Cap property assessments for fixed-income elderly and disabled people. The theory underlying this is that these people have less opportunity to add to their individual incomes so the government should be restrained from asking them for more tax revenues.

Almost one-half of state general funds are spent on schools in Arkansas. State funding of schools is directly tied to local school districts' assessed wealth. Wealthier school districts receive less state funding than poorer school districts. If the assessed value of a school district is not correctly estimated, state funds are being misapplied.

Clearly, school funding needs dictate that values be accurately assessed. Additionally, when property assessments are forced to increase by state order, property owners suffer from "sticker shock" and become outraged.

In response to the problem of "sticker shock," we have instituted a system of regular revaluation of property that will be funded by and closely monitored by state government. Local governments will still be responsible for assessing property, but they must employ competent managers and follow proper procedures. If they do not initiate or adhere to sound management and procedure, state government will enter into contracts with private vendors who will.

MAKING GOVERNMENT PERFORMANCE-DRIVEN AND ACCOUNTABLE

From the outset of my administration, I have focused on government reform. We must make government performance-driven and accountable to the people. To achieve this, in the summer of 1996, I asked the Murphy Commission, a group of some of Arkansas' most distinguished business leaders, to examine every facet of state government and its current operations, compare its findings to the best practices in management and finance found anywhere in America, and report back as soon as its task was complete. After two years of exhaustive,

volunteer effort, the Murphy Commission responded on Sept. 17, 1998, with its initial recommendations for implementing sweeping reforms that would increase efficiency and accountability in Arkansas' state government.

Many things can and will be done to reform state government, but giving managers the tools to manage well — and giving taxpayers the information to determine how their leaders are doing their jobs — is essential. Indeed, without first accomplishing that basic, structural reform, other attempts at change are doomed to failure.

Outstanding governors, such as former Govs. George Allen of Virginia and Zell Miller of Georgia, implemented similarly innovative managerial and financial reforms based on higher performance at less cost. The benefits of such reforms are apparent in their states, as well as states such as Texas, Michigan, Florida and Arizona. Government expenses are falling, state economies are booming, public services are improving and inefficient government bureaucracies are giving way to leaner customer-oriented operations tying their performance to measurable performance objectives.

I am committed to making Arkansas a showcase of excellence in government and accountability to the people. To accomplish this, some of my recommendations are:

1. Restructure Arkansas' budgeting process to require the use of performance-based budgeting.
2. Define and implement a system of performance-based pay for all state employees.
3. Implement activities-based cost accounting, with expenditures tied not only to costs but to measurable performance outputs.
4. Provide for a fully independent audit of state government, overseen by a bipartisan audit committee, the majority of whose members would come from outside state government.

PERFORMANCE-BASED BUDGETING

Performance-based budgeting requires state government to define what constitutes good performance and then allocate money to those functions on the basis of how effectively the intended performance outputs are being achieved. Arkansas has used an incremental approach to budgeting rather than a performance-based approach.

An excellent model for this exists in the form of the federal Government Performance and Results Act of 1993 (GPRA). When enacted, GPRA required federal agencies to develop, no later than the end of fiscal 1997, five-year strategic plans that included the agency's mission statement, identified the agency's goals and described how the agency intended to achieve those goals through its activities and through its human, capital, information and other resources.

Once these measures are determined and implemented, integrated outcome and performance measurement — performance-based budgeting — becomes possible. Performance budgeting is the allocation of resources to achieve specific objectives based on program goals and measured results. Its basic principle is to focus on accountability for service quality, quantity, efficiency and effectiveness — not just on meeting the requirements of budget laws and staying within the budget.

A budget functions as an instrument for financial and policy control, as a guide for operations management and as a vehicle for policy planning and implementation. Performance measures can contribute to the formulation and justification of budget requests. They can illustrate the benefits that can be achieved with additional resources. Similarly, in cases of shrinking resources, performance measures can help governments make the case for budget reductions targeted in particular programs rather than making reductions with across-the-board cuts.

By using performance measures in budgeting, micromanagement can be avoided. Budgetary control is moved from a focus on inputs toward agreement on performance and outputs desired. This change lets management exercise more creativity and is designed to reduce or eliminate micromanagement by elected officials, keeping them focused instead on getting the best results for the public's money. The budget serves as a performance contract between an agency and elected officials and ultimately to the taxpayer by making the system transparent, responsive and meaningful, thus reducing cynicism toward government. In contrast to traditional budgeting, the focus is on the unit cost of achieving a particular outcome rather than on the unit cost of providing a service.

PERFORMANCE-BASED PAY

Performance-based pay is essential to making government performance-driven and accountable, and for that reason it is integral to our ongoing efforts to renew state government. At the beginning of the 1999 legislative session, we introduced and saw passed into law our Career Ladder Incentive Program (CLIP). CLIP will compensate state employees for the actual job performed as well as provide an opportunity to reward state employees for experience and performance. A primary component of CLIP is the ability to respond to prevailing market pay rates and adjust state employee pay accordingly, something to which we are committed. CLIP will cover all classified employees whether in career ladder positions, management positions or technical positions at the top of the career ladder or at the maximum of their salary grade.

ACTIVITY-BASED COST (ABC) ACCOUNTING

Activities-based cost accounting is very likely the linchpin of the package. ABC accounting allocates dollars as they are spent in the agencies — in a consistent and uniform manner — to defined service activities and administrative and support functions. When tied to

outputs under a system of performance budgeting, ABC becomes a vital source of managerial information and needed public reports to citizens. At the push of a button, citizens and government leaders alike can see not only how much money is being spent in an agency and its departments, but where it is being spent in each agency relative to the vital major services they provide, relative to their costs of operating and relative to agreed-upon goals.

ABC accounting may be new to government, but it is certainly not untested there. Iowa has moved to an ABC system, and Virginia's Commonwealth Competition Council has developed a software tool for their agencies that — once installed on accounting computers as a special module — not only properly allocates costs to activities in agencies but suggests whether or not an activity is a good candidate for competitive outsourcing.

INDEPENDENT AUDIT OF STATE GOVERNMENT

We believe the auditor of a state or local government's financial statements must be independent, both in fact and appearance. A properly constituted audit committee helps enhance the auditor's real and perceived independence by providing a direct link between the auditor and the governing board. For this reason, we encouraged the Legislature to enact legislation to implement a fully independent audit of state government.

In recent years, the importance of audit committees has come to be recognized increasingly in the public and private sectors. This importance is reflected in the requirement set by generally accepted auditing standards that auditors determine that the audit committee (or its equivalent) is informed of various matters of importance related to the financial statement audit.

CONCLUSION

The experience of the past three years in Arkansas has shown plainly that government, all too often, has not been accountable to the people or even at times to itself. Yet today, the

procedural and technological tools exist to eliminate most of the accountability problems that exist simply by properly collecting the right data and presenting it in a meaningful way. We are committed to finding and acquiring the tools Arkansas needs, both to clean its house and to achieve real excellence. The time has come for reform. We are committed to leading a performance and accountability revolution that gives Arkansans the performance, accountability, and ultimately, the results they deserve. Not only should their expectations be met, but those expectations should be raised, and government should consistently deliver.

Mr. BURTON. I think you ought to give me a copy of that, Governor. I would like to use that in my next Lincoln Day speech.

Governor, let me start off by asking you what the overall economic impact has been in Arkansas because of these tax cuts and reforms.

Governor HUCKABEE. First of all, our State government has had a surplus. In fact, we had anticipated a $110 million surplus in this past year. The figures are going to be more like $191 million of surplus. We think it is directly the result of both a very healthy economic, but we also believe that it is in part due to the tax cuts that were implemented.

It is very clear that the $90 million of tax cuts that went into effect even in the last year were very helpful in causing people to take that money that was due to them and to spend it in the marketplace. And the more they spend, the more things have to be put on the shelves, and the more things have to be manufactured and shipped and serviced, and everybody wins.

Mr. BURTON. Did you receive a lot of opposition from various groups about the tax cut? What kind of opposition did you experience?

Governor HUCKABEE. Mr. Chairman, we did receive opposition from, I would say, the usual suspects. There are always those who think that government needs more money and more control. But the good news is that their numbers are dwindling in Arkansas, and I think began to see in our State that taxes were, in fact, onerous on many of our families and were willing to give this a try. The result has been, as I have already indicated, a very positive one.

In this last session, I think the paradigm has truly been moved from coming to the legislature every 2 years in our State, talking about which taxes we would raise, and by how much. Now the discussion centers, when we get together, on which taxes we will cut, and by how much.

Mr. BURTON. You know, we all live by polls anymore in Washington; I am not sure we should, but everybody looks at the polls on everything on tax reform to Kosovo, and I think it does have a bearing on people's decisions, decisionmaking processes. Has there been any polling data in Arkansas to find the reaction of the people toward your administration's tax cuts and tax reforms?

Governor HUCKABEE. Mr. Chairman, probably the most effective poll would be the election last November, and in a State that is considered to be predominantly, overwhelmingly Democrat, I was elected with 60 percent of the vote, and that was with a three-man race. It was a significant election and a decisive margin of victory.

I think, also, the size hit was that nearly 50 percent of the minorities in our State voted for me. It indicates that this crosses party and geographical, gender, cultural, and racial lines. People of all kinds want government to be less intrusive in their lives. People have dignity and want to be able to know that, when they come home tired every day from a hard day's week, that the money that they have earned, they are going to be able to direct its spending as much as is possible.

And people in our State—and we are a small State, and we are essentially a poor State compared to most; we would be the first to tell you that—but our people are proud and they are hard-work-

ing. They know that government ought to be there to do certain things. When they dial a 911 call, they want someone to answer it. They want our schools to be decent and our kids to get a good education. But what they don't want is government that goes way beyond the essentials and the basics.

I think that as people are realizing that tax cuts do not hurt public education, it doesn't hurt healthcare for children—and, in fact, Mr. Chairman, it was 2 years ago that we launched a very innovative children's health initiative called the Our Kids First Program that really is in the long term a very fiscally responsible approach, because it recognizes that preventing illnesses and diseases is less costly than waiting until they are in catastrophic condition and then treating them. I think tax policy is the same kind of approach that we try to look at in Arkansas, not only looking at just cutting taxes for the next election, but trying to cut taxes so that we can stimulate the economy for the next generation.

Mr. BURTON. Let me just ask you one more question, and I might add, before I ask the question, that I went through radio training school in the U.S. Army at Ft. Chapee, AR, and the people at Ft. Smith were really great to me when I was down there. That was back in 1908. [Laughter.]

Let me end up by asking you, you know, we have heard a lot from the pollsters and from the people on CNN and all these talk shows, these talking heads thing, the American people really don't want a tax cut. Can you tell me in Arkansas if that is true?

Governor HUCKABEE. Well, we didn't have anyone turn it down. So the best way I could say it is that I think that they clearly did want the tax cut, and to my knowledge, not one single Arkansan, out of 2.5 million people, wrote us and said, "Please, you all keep that. You are doing such a great job with it; we would like for you to just hold onto it a little longer."

Mr. BURTON. OK, thank you, Governor.

I think we will go to Asa, since he was the next one here.

Mr. HUTCHINSON. Thank you, Mr. Chairman, and I will just ask a couple of questions and give my colleagues an opportunity as well. I want to ask two questions, one referenced to property tax.

I know that in the last session they were concerned about the attitude of the people, but the people of Arkansas really were initiating a referendum, a property tax reduction on the ballot, and the legislature addressed that. Could you explain how that pressure worked and how the legislature responded to it?

Governor HUCKABEE. Congressman, as you are well aware, being from Arkansas, there was a real scare because on the ballot, just before the election, an initiative was there that would have completely eliminated property tax. And while that sounds very appealing, all of us understand that, while we want to lower taxes, we can't eliminate them altogether and still give people a decent government.

This particular proposal would have had a devastating impact on our economy. It would have literally cut our budget by about 35 to 38 percent, which would have devastated our schools. We are already 50th in per-pupil expenditure in terms of student spending.

So many of us fought back that measure, and we said that, if you will give us a chance in the next legislative session, we will do ev-

erything possible to bring three things: establish a taxpayer bill of rights, reform the system, and bring some relief to taxes.

Just prior to the election, the Arkansas Supreme Court took that initiative off the ballot for a misleading ballot title. So we sort of dodged the bullet in terms of the vote. But I knew, and so did the legislators, to their credit, that we needed—in fact, we were obligated—to take responsible action in fixing the property tax system, or else it would come back to the ballot in the year 2000.

To the credit of the legislators—and I want to give them 99.9 percent of the credit—they were willing to work hard to make sure that we did accomplish those very three objectives. The property taxpayers' bill of rights will give every citizen detailed information, not only about what his or her rights are in regard to appealing a property tax verdict they don't like, but also detailed information about how the money is collected, what it is used for, and exactly how it is spent, with the process for them to appeal on their own terms and, frankly, in their own timeframe, as to when they can work with it.

Second, the property tax reform, a number of reforms where we will have uniform assessment across the State; we will also have it in a timely way, so we will not have huge jumps. This is one of the things that triggered the revolt in our State, as you will recall, where people went for 10 years without a reassessment, and when it was reassessed, it was the jump in the property tax that was the sticker shock that caused many of them to feel very angry. And the final issue was the relief, and even though we enacted certain things that we could do statutorily, some of the issues have to be carried out through the constitutional reform. And on the year 2000 ballot there will be a measure that will give Arkansans a choice to make, if they want to enact a significant property tax reduction, and if they do, then it will come in the form of a tax credit on their homestead exemption of about $40,000 to $42,000 per homestead, which will amount to around $300 to $325 per homeowner.

Mr. HUTCHINSON. I was impressed with the legislature and your leadership, responsibly dealing with that energy out there to reduce property taxes.

Then, finally, I wanted to just mention, and particularly for my colleagues to hear how it works in Arkansas, the revenue stabilization act. Some of the pressures that we face in Washington are the approaching or escalating expenses for government each year. In Arkansas, if you could just explain how the expense side of government works, and how it is budgeted so that you do not exceed your budget and have deficit spending each year.

Governor HUCKABEE. Well, if there is anything that perhaps Arkansas could export to Washington that would be of great benefit, it would perhaps be the revenue stabilization act that was enacted several decades ago. It basically requires that we have a balanced budget; that we do not go into deficit spending. It is constitutionally prohibited.

And the revenue stabilization act provides that, as we develop our entire budget, we do so with budget categories—categories A, B, C, and we could even categorize a D category, though we typically do not. As money flows into the State treasury, those items

are funded according to the priorities in which they are established. Our forecast is carefully monitored, literally on a daily basis. And whenever we are below forecast, that immediately is applied to the spending that government agencies are allowed to utilize from that budget flow. So that at no time during the entire biennial budget—and we have a biennial budget—is there a point at which the agencies are spending beyond not only what they were budgeted, but what is actually flowing into the treasury. And it gives us a real clear management tool to ensure that there is not deficit spending and that there is proper management throughout the entire biennium.

Mr. HUTCHINSON. Thank you, Mr. Chairman, and thank you, Governor.

Mr. BURTON. Mrs. Morella.

Mrs. MORELLA. Mr. Chairman, I would be glad to ask a question, but there may have been others ahead of me who are here.

Mr. BURTON. If you prefer, we will go ahead to Mr. Horn.

Mr. HORN. Thank you very much, Mr. Chairman.

Governor, it is a great pleasure to see you. We are delighted with what you have accomplished in Arkansas in such a short time.

The Governor Whitman testimony this morning, she noted that we need to invest some of that surplus that we have, or think we have, in Social Security and education. And I asked her a question that I want to also ask you and the other Governors.

Obviously, tax cuts are one option, and we are doing some of that. And I guess I would ask the question, to what degree do you think we ought to be also reducing the national debt, which is $5.3, $5.5 trillion? A tax cut is good for your and my generation. Reducing the national debt would be good for our grandchildren. And I feel very strongly since Congress, not this Congress, not the last Congress, but the Congresses of the last 40 years, up to 1995, just had a spending spree. The Republican Presidents should have vetoed a lot of it, but they didn't, and they were wrong. They should have gone right to the mat.

But there we are at $5.5 trillion. What advice would you give on how we split that supposed surplus?

Governor HUCKABEE. Congressman, first of all, I would be very reluctant to try to give advice to Members of the Congress. I have enough trouble dealing with our issues back home in Arkansas.

Mr. HORN. Everybody else does; I don't know why you shouldn't. [Laughter.]

Governor HUCKABEE. But I would just express an opinion that I don't think the tax cuts and a responsible managing of the deficit have to be enemies. I think that they can be parallels of the same track upon which this train of a strong economy can run. Certainly it is important to reduce the long-term indebtedness that the United States has, but it is also important to give people who have earned money an opportunity to direct the expenditure of that money. By the same token that we could create a real undue burden on our grandchildren by not reducing the deficit, we are also really creating an undue burden on the worker today for the sins of the past for his or her grandfather. And while I am concerned about our grandchildren, I am also concerned that we need not to

penalize today's American worker for the sins of our ancestors, who perhaps did spend us into this kind of deficit.

So responsible tax cut in the context of overall economic planning, I don't think has to be inconsistent. I think it is a very consistent approach, and one I would hope that would take place.

Mr. HORN. Well, I agree with you on the deficit. We can't be putting out any more deficit budgets. We have to put a stop to that—even though the President has not been very cooperative in the sense of giving us his list of what he wants to see cut. He has a lot of new programs. He has operations all over the world in the military, and yet, we never get a recommendation from him as to what he thinks we ought to cut. And that isn't leadership, in my humble opinion.

But what I am thinking of is, one, having budgets that have no deficit. No. 2, start to take away some of those bonds that are out that cover up the national debt and see if we can't reduce that, and with that, hundreds of billions of dollars in interest annually. Lyndon Johnson ran the Vietnam War and the whole government on a $200 billion budget. Now that kind of money goes to pay the interest rates. And the sooner we can get it down, the less a burden will be. Still, if we live long enough, to Strom Thurmond's age, you and I will still be paying it, and our grandchildren and great grandchildren will also be paying it. So I am looking to see if we can't get rid of some of that national debt.

[Governor Huckabee shakes head.]

Mr. HORN. I don't know if you shake your head affirmatively or negatively.

Governor HUCKABEE. Oh, I mean, I think your point is well taken. Let me add this one comment as regards to the debt.

One of the most effective ways to be able to have the capacity to draw down the debt would be to give the economy the kind of stimulation where people would earn more. When they earn more, they will spend more. And when they spend more, even if the tax rates remain similar or lower, we have discovered in Arkansas that we can lower our taxes, but actually bring more money into the treasury, because there is a greater level of economic activity taking place.

And I realize that there comes a point at which you can't lower the taxes so low, but, on the other hand, there is a point at which you can also only raise them so high, at which at that point it has, I guess, application of the law of diminishing returns.

So what I would think is that, with the tax rate lowered by the Federal Government, I think that while it may appear on the surface that it would decrease the capacity to go against the debt, I think the opposite will be proven to be true. And it has certainly been proven in our own States. Governor Whitman would tell you that, and Governor Battaglia will tell you that tomorrow, and Governor Gilmore will tell you that this afternoon. I would tell you that in my testimony this afternoon.

Mr. HORN. I think you are absolutely right on that. And if we want to really give tax relief, we would lower the burden of 15 percent on employer and employee, but really it is all out of the employee's pocket, as well as the employer's pocket, on Social Security or Medicare. That is the one that is truly a regressive tax that real-

ly hurts lower-income people, and we ought to be doing something about that, too.

[Governor Huckabee nods affirmatively.]

Mr. HORN. I take it you are nodding that we——

Governor HUCKABEE. I think it is a great idea, absolutely.

Mr. BURTON. Mr. Horn, we all agree with you.

Mr. HORN. Good.

Mr. BURTON. Mrs. Morella.

Mrs. MORELLA. Thank you.

We are honored that you appear before our committee, Governor Huckabee. You know, I used to represent in their home away from home both Senator Bumpers and Senator Pryor, and I want you to know—they are no longer there—but I want you to know you are represented by some great Members of Congress. You have got one sitting right next to you, to your left, Jay Dickey. He is a real admirer. He talks about you often—and Congressman Hutchinson, who was here, who represents as well. So I want you to know that.

I am also on the District of Columbia Subcommittee, and I just had a meeting earlier today talking about the possibility of tax cuts for the District of Columbia people, since we have been doing a lot of revitalization quite successfully. Their income tax is among the highest in the Nation. They have like five different levels of corporate tax. And they have a surplus. So it sounds like it has got the right environment for it.

But I asked then a question I would ask you: Where does the opposition come from? The answer I got: Well, you are going to have those groups who say you need to put more money into health. You are going to have those groups who are going to say you need to put more money into education. Instead of giving tax cuts, let's spend this money on something where we can see some effect that would be beneficial for the public.

Now I want to ask you before—my first question within a question is: Where does Arkansas rank in terms of the per-capita expenditures on education?

Governor HUCKABEE. We are 50th.

Mrs. MORELLA. I thought I heard you say that.

Governor HUCKABEE. Yes. That is correct.

Mrs. MORELLA. That is why I picked up on it.

Governor HUCKABEE. Right. We are 50th in the amount of money that we spend on a per-pupil basis. So our State has a long way to go in terms of spending. Now the good news is that we are 32nd in terms of our overall academic results—proof positive that it is not just money that equals good education. It is good, dedicated teachers. It is a disciplined environment in the classroom. It is a good curriculum. It is the parental involvement. And it is, I think, a lot of local control at the school board level and the campus level. All of those are important factors, as well as how much money flows to the student.

I think we could all look at surveys that show that some school districts in which the expenditures are extraordinary don't produce academic results that are better or even equal to other districts who don't have that kind of money, but they do have the strong sense of parent involvement. They have a strong sense of discipline in the classrooms.

Mrs. MORELLA. I agree.

Governor HUCKABEE. So I think while I would certainly want—and one of my goals as a Governor, quite frankly, is to make—before I leave office, Arkansas is no longer 50th, and we have increased education funding, and I want to do it more. But I don't think there is a conflict between that and being able to also cut taxes.

Mrs. MORELLA. Did you hear from like the teachers' groups and parent groups about that?

Governor HUCKABEE. We heard from the teachers' union about that. Certainly they were apprehensive about tax cuts, and there were other providers. Quite frankly, Congresswoman—and I know you know this very well, as I do, because of your position—there are a lot of people who make a lot of money off the government—a lot of money off the government. And a lot of people who are the so-called advocates for the poor and to help end poverty really understand that their living comes off of making sure there is enough poverty out there to give them a job.

Mrs. MORELLA. It is kind of a balance; that you are the one who is the leader in terms of making sure that you do have this balance.

Our chairman has been pushing very hard something we call the Government Performance and Results Act, which does that very thing. It says, OK, can you tell us not only what your mission is, but what are you doing to prove that you are reaching those goals? That is the kind of thing that you are saying.

I would ask you, did that 32 percent occur while you were Governor? Or has this been happening in terms of performance——

Governor HUCKABEE. That is the most recent figures. Our academic performance is up. Our level of remediation is down. Those are two good indicators that we are doing some things right.

What largely we have done is to refocus on the beginning of an educational environment with a program called Smart Start, which is a K–4 initiative to ensure that students get the right start.

But you mentioned some other areas of efficiency. We have implemented cost-based budgeting or activity-based budgeting, which has made a very important in-road in actually determining the cost of what government is doing; performance-based budgets, which is something we have implemented this year. And we have got a citizens' commission called the Murphy Commission, headed up by a south Arkansas businessperson, and headed up by a blue ribbon panel of business and civic leaders, all outside of government, whose job it has been for the past 2½ years to go through every single agency of State government and make recommendations of how we could downsize, make those agencies more efficient, utilize technology to be more capable of better managing the resources they have.

As a result of that, we have an independent audit structure now in place in our government; the activity-based costing; performance-based budgeting, and a new program called Career Ladder Incentive Program for Employees, which gives people an incentive for staying in State government, but not just for physically being there, but for actually performing and being graded on objective levels of their performance.

Mrs. MORELLA. I am sure you have probably had job training in terms of technology and education also included within your program?

Governor HUCKABEE. That is correct.

Mrs. MORELLA. I know my time has expired. I want to congratulate you on putting into effect all of those elements. Thank you.

Governor HUCKABEE. Thank you.

Mr. BURTON. Thank you, Mrs. Morella. Congressman Terry.

Mr. TERRY. Yes, thank you, Mr. Chairman.

Governor, it is nice to meet you. My sister is a resident of Rogers, AR. She has lived down there for about 15 years now, her and her family, and mentioned supporting you, and that they were thankful to have you in there now.

Governor HUCKABEE. You have a wonderful family, Mr. Congressman. [Laughter.]

Mr. TERRY. I thought you would agree with me on that one.

But I have got to tell you, one of the major issues—I am new to Congress, only been here 90 days, but one of the issues that concerns me most—and, in fact, was one of the reasons why I ran—is what I thought were some questionable Federal policies, particularly in taxation areas, marriage penalty, one of my pet peeves. In fact, in a survey I did with my constituents, I found out that it was also one of theirs, too.

Congress—or at least the House—a year ago was able to adopt a measure that significantly reduced that burden on families where both parents work; couldn't get it through the Senate. But I am picking up on a theme here today with our Republican Governors, that they have been able to do the morally correct and just economically correct thing for working families, and that is eliminate the marriage penalty. I am sitting up here saying, we can't do it here, but the Governors in the States are seemingly being able to do it with ease.

Was it easy? Did you have opposition? Teach us how we can get that accomplished.

Governor HUCKABEE. Congressman Terry, while there was some opposition to any tax cuts, I think as it relates to the marriage penalty, in particular, that it was one of the less controversial items that we put in the package, in large measure because it is totally inconsistent—in fact, it is almost inconceivable—that, on the one hand, we would encourage people to get married and stay married; to build strong families and raise children in the environment of a loving atmosphere, where they have a mother and a father who truly nurture them, and on the other hand, give them a greater level of taxation, and actually penalize them for maintaining a traditional family relationship. It is completely inexplicable and indefensible.

From a pure common-sense standpoint, even if the economics weren't so positive for it, I do believe this goes to the heart of what you said: It is a moral issue. We should not penalize people for maintaining a strong family structure.

It certainly has not hurt us. In fact, I think it has helped us, and it makes our State even more marketable to other people, as we say: It is a great place to live, and we don't penalize you for being married.

Mr. TERRY. Well, congratulations on accomplishing that with ease and building your coalitions. That is, I guess, our job here. Thank you.

Governor HUCKABEE. Thank you.

Mr. BURTON. Thank you, Congressman. Congressman Ose.

Mr. OSE. Thank you, Mr. Chairman.

Governor, good afternoon.

I have a couple of questions, and it relates to the cost of doing business at the local level and the taxes that might follow from Federal intervention and traffic congestion situations and land use planning. We have someone in the administration who appears to be running for President, but, more accurately, has a platform designed to run for mayor.

I am a little curious, from a tax consequence standpoint, what feedback you might give us in terms of the Vice President's mayoral campaign at the local level in terms of cost of government.

Governor HUCKABEE. I appreciate the question, Congressman. I would say as strongly as I possibly could, the best thing that you in Congress could do for us at the State level is to give us the opportunity to solve problems at the local level, and don't assume that they can be solved at this level.

With all due respect to all the Members of the Congress and to the institution itself, there is no way in the world that an urban planning program, an education program, a wildlife management program can be designed in a concrete building in this city that will be applicable and work equally well in Washington State, Miami, FL, or in Ft. Ise, AR. It simply can't and won't happen because every locality has a unique milieu of culture that needs to be addressed. And it is one of the principles that I think that many of us govern by, and that is that the best government is the most local government, because it is closest to the people being governed, and therefore, it is held accountable by those who are being governed.

Whether it is education policy, we would urge: Send us the money, not the strings. If it is urban planning, this is when we say, "Send us the money" would be "This is money our citizens have coughed up. Return it to them and to us"—and to let those decisions be made at the local level. We honestly believe they will be better decisions because we in those localities have to live with them and are closer to what is desired by the people under that forum than anything else.

I appreciate your bringing that up.

Mr. OSE. Mr. Chairman, if I may follow on, one thing I have learned in the few short weeks I have been here—as Mr. Terry, I am relatively new—you referenced a concrete building here in the city of Washington, DC. I want to make sure we don't end up parsing that particular comment. Are you also referring to stick frame buildings, metal buildings, or any other kind of buildings? I just want to make sure that I understand the universality of your comment.

Governor HUCKABEE. Even if it was in a manufactured home, it would still be the same policy, yes, sir.

Mr. OSE. All right, so I can be clear that it is not the structure from which it comes; it is the fact that it originates here at a far

distant point, rather than perhaps accommodating, as you said, the peculiarities or the unique circumstances of the localities?

Governor HUCKABEE. That is correct. I just haven't seen anything except the granite and the concrete around here.

Mr. OSE. Well, I have learned that I have to be very careful about how I ask questions, because people are very clever in how they parse the words. So I don't mean to imply anything relative—I just want to be clear about what you were saying. So I appreciate your feedback.

Governor HUCKABEE. Point well taken.

Mr. BURTON. Well, Governor, thank you very much for your testimony and for your patience, and for being with us at the news conference. I can see why you were elected with 60 percent of the vote in Arkansas. You are a darned good guy, and not a bad looking fellow, either.

I want to say that you have a great Congressman in Congressman Hutchinson there. He has acquitted himself very well since he has been here. Congressman Dickey, on the other hand, needs some help with his basketball, and if you would talk to him about it, I would appreciate that. [Laughter.]

With that, thank you very much for being here.

And I hope the members will be with us in a little bit when Governor Gilmore is here.

With that, we will stand in recess at the fall of the gavel.

Thank you again.

Governor HUCKABEE. Thank you, Mr. Chairman.

[Recess.]

Mr. BURTON. The committee will be in order.

Welcome, Governor. We appreciate your patience. Why don't you just go ahead and sit there at the table?

We really appreciate your being with us today. Unfortunately, right now on the floor we have the census bill, which is one of our subcommittees, and so a number of our colleagues are down on the floor debating whether or not local officials ought to have the ability to participate in reviewing the census. So they will be coming in from time to time.

Governor Gilmore of Virginia was elected in 1997, promising reform of Virginia's burdensome car tax, and May 20, 1998, Governor Gilmore signed into law the phaseout of the car tax. Between 1998 and 2000, Virginia taxpayers will receive a refund of $435 million as a result of this reform. He has also fought hard to eliminate the sales tax on food, and just this year a repeal of 2 percent of the State's 4.5 percent sales tax on food was enacted.

He is also working hand in hand with business to create more jobs for Virginia, and he has set aside $7.2 million to reduce the tax burden on corporations with headquarters and major production facilities in Virginia.

And I recall, Governor, when you were running, as I said to you back in the back there, that when you said you were going to cut the car tax, I could almost hear the voters applauding; I knew you were in.

So welcome.

And let me introduce my colleague Mr. Davis of Virginia, who is one of your outstanding Representatives and head of our NRCC, as you know as well, to introduce you.

Mr. DAVIS OF VIRGINIA. Well, thank you very much. I was also co-chairman of the Gilmore for Governor Campaign—for attorney general and for Governor.

Mr. BURTON. He was also co-chairman of the Gilmore for Governor Campaign. [Laughter.]

Mr. DAVIS OF VIRGINIA. Well, and I might add, Jim and I have known each other since law school, and I followed his early days, when he was prosecutor in Henrico County. But I think his most unique attribute is he took something that had never been an issue in Virginia politics on cutting the car tax, which no one liked, but everybody just kind of routinely paid; saw a huge surplus coming in the Virginia budget, and decided that, instead of the State just spending it, that he would give it back to the people who were responsible for putting it there. And a lot of the pundits criticized him and laughed, and there were editorials, and there was a point I wasn't quite sure what to do when he came up with it, but Jim stayed on message and he followed through. I got my first rebate this year on the car tax, and I have a voucher for next year's car tax.

They are moving ahead not only in that way, but we have put more money into education. We have put State money into school construction for the first time in our history. We are extending healthcare to more people than have ever been covered before in Virginia. And it shows that cutting taxes is not a zero-sum game; that if you cut taxes and you continue to lure and attract industry, your tax base expands, and there are more revenues. And the answer is really not more taxes, but more taxpayers, and that is what we have done in the Commonwealth of Virginia.

And his leadership has won plaudits nationally. His opinion polls are very high in Virginia. But I think the real testimony here is that it is working well in Virginia, and things that political leaders have been talking about for a generation are now being enacted. So we do, indeed, have it both ways, and the tax base continues to expand.

So I am really pleased to introduce our Governor of the Commonwealth of Virginia, my friend, Jim Gilmore.

Did I miss anything there, Jim?

STATEMENT OF JAMES GILMORE, GOVERNOR, COMMONWEALTH OF VIRGINIA, ACCOMPANIED BY RONALD TILLETT, SECRETARY OF FINANCE, COMMONWEALTH OF VIRGINIA

Governor GILMORE. I think that about does it, just like we wrote it. [Laughter.]

Thank you.

Mr. BURTON. Governor, you are on.

Governor GILMORE. Great. Thank you. Mr. Chairman, I appreciate the opportunity to be here and to see you again, as well as, of course, your counsel, who I have known for quite a period of time; Congresswoman Morella, who I have gotten to know, and she and I worked together on some mutual projects in Maryland, and I was very happy about that.

Mr. Terry, nice to see you, sir.

And, of course, Tom Davis; we were in law school together. He was much older than I was at the time. [Laughter.]

But it is a pleasure to be here with all of you, and I want to thank you very much. I have a statement which I, of course, will naturally submit for the record. But, with your indulgence, I would like to present it to you.

First of all, before I do that, though, I want to introduce to you all my secretary of finance, Ron Tillett, who is here with us today. The secretary came along at my request, so that if there were any specifics that we needed to address, that he would be here to do that.

We live during the most prosperous time in our Nation's history right now. Working men and women are earning higher wages than we have ever seen before. Our economy is booming, and it is nearly inflation-free. And our stock markets are climbing, which seems to be a ladder of almost endless ascent.

America's working men and women toiled long and hard to see this day. Through war, depression, social unrest, they bore the heaviest and harshest burdens during the toughest times of this century.

In its proper role, government provides essential services, but also a framework in which people can pursue their individual goals to make their version of the American dream a reality. But government has become a great burden. While the era of big government might be over, big government itself remains with us.

The Federal Government now takes more than 20 percent of the Nation's earnings. That is the highest proportion since the American people willingly sacrificed their paychecks, and many their lives, to win World War II. In addition, taxes from all levels of government take 32 percent of the Nation's income. Taxes now take away a third of every American's capacity to define their own lives. So, clearly, taxes in America are too high.

But I believe there is hope for the overtaxed in America. Record-breaking economic growth and historically high taxes have boosted revenues and created State government surpluses, and will in the future create Federal Government surpluses. Elected leaders now have a unique opportunity—and I believe an obligation—to reduce taxes while strengthening essential government services.

By the end of these hearings, you will have heard how four Republican Governors have cut taxes at the State level. Many more Republican Governors have made tax cuts a priority as well. Together, we are sparking a new type of tax cut movement, one for all Americans, not just for an elite few; one providing significant relief while protecting vital government services, and one sparing economic growth, both in traditional and information age industries.

Now while campaigning for Governor in 1997, President Clinton came to Virginia to criticize my no car tax plan. The President said, "This is really a question about whether Virginians will be selfish in the moment or selfless for their children in the future." This was his comment when he was addressing or opposing my no car tax plan.

And I thought about it at the time that he did it, and I thought to myself, "Selfish for working men and women to want to enjoy the fruits of their labors rather than forfeiting them to the tax collector? Selfish to think it unfair to annually tax a car, which is a necessity, so that you really never own it?"

Virginians knew better. They knew taxes were too high, and they knew that the car tax was wrong.

Last April I signed a personal property tax relief act of 1998, and it will phaseout the car tax on the first $20,000 of every personal vehicle's value by the year 2002. The car tax will annually return more than $1 billion to Virginia's working men and women. That is the largest tax cut in Virginia's history.

We are also eliminating the State's share of the sales tax on food. The food tax takes more from working families of modest means, when the government should take less. The bigger the family, the greater the struggle to make ends meet, and the more the food tax takes.

The legislature recently passed, and I signed, my plan to eliminate the State's share of the food tax. When fully implemented, the food tax cut annually will return another $270 million to Virginia's working men and women.

Many of Virginia's working men and women serve in the Armed Forces. Their commitment to protect America and America's interest often requires them to spend lengthy amounts of time abroad, away from their homes and their families. We are proud in Virginia of our brave military men and women, especially those who are fighting on the front lines in Kosovo. We are eliminating the tax on the first $15,000 of military pay, so that they can keep Virginia as their home.

Tax relief empowers working men and women with financial freedom. It creates incentives for businesses to grow and to invest, and to create more and better jobs for their families.

In Virginia we are expanding the number of Enterprise Zones and cutting industry-specific taxes to make our business environment more competitive. And we especially want to strengthen our burgeoning technology industries. Northern Virginia is home to the greatest concentration of Internet companies and users in the United States. Global Internet giants, such as America Online, PSINet, MCI WorldCom's Division of UUNet, Network Solutions, and many others are headquartered in Virginia.

I recently signed legislation to cut the sales tax on equipment used to provide Internet access. This Internet tax cut, coupled with our comprehensive Internet policy act, will strengthen Virginia's leadership role as the Internet capital of the world.

Now I have mentioned just a few of the tax cuts that we have enacted during the first 500 days of my administration. When all 16 tax cuts are fully implemented, $1.5 billion will be annually returned to Virginia's working men and women.

Now have we sacrificed our duty to be responsible stewards of the public good? Of course not. We are increasing our support for colleges and universities, while making them more affordable by cutting tuition 20 percent.

We are implementing our nationally acclaimed standards of learning to list student achievement in kindergarten through the

12th grade. We are strengthening our transportation infrastructure throughout the State, and we have cut violent crime to the lowest level in this decade.

What my administration is doing in Virginia, and other Republican Governors are doing in their States, the Federal Government can do in Washington. The Federal Government can both cut taxes and strengthen vital government services, like Social Security and national defense. The Republican budget does exactly that.

But sustained tax relief and responsible public stewardship require discipline. Government must make tough spending choices, just as working men and women do every day. Government must weigh every dollar it taxes against the needs of those who are earning those dollars. Let me say that again: Government must weigh every dollar it taxes against the needs of those who earned the dollars: the need of a single working mother to pay for daycare, so she can earn a living; the need of a wage-worker without a pension plan to save for retirement; the need for an Internet entrepreneur to save for seed money for a startup.

We can meet the obligations of a secure and humane society while still empowering people to build better and more independent lives. And I urge the Congress to follow the lead of Republican Governors and pass a budget that balances the need for significant tax relief with the priorities of responsible public stewardship.

Mr. Chairman, thank you very much, and now I would be happy to answer any questions.

[The prepared statement of Governor Gilmore follows:]

COMMONWEALTH of VIRGINIA
Office of the Governor

James S. Gilmore, III
Governor

Mark A. Miner
Press Secretary

Testimony of Governor Jim Gilmore before the House Committee on Government Reform

Washington, D.C.

Wednesday, April 14, 1999

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We can meet the obligations of a secure and humane society while still empowering people to build better and more independent lives. I urge the Congress to follow the lead of Republican governors and pass a budget that balances the need for significant tax relief with the priorities of responsible public stewardship.

Mr. Chairman, I now would be pleased to answer any questions.

Mr. BURTON. Thank you, Governor.

You know, we often hear about tax cuts being for the rich or selfish, as you noted in your testimony. Could you explain in your administration how cutting taxes helps the working poor and the middle class as well?

Governor GILMORE. Sure. Let me start with a little story. About 2 weeks ago—I guess it was about 2 weeks ago—I was at a very nice dinner party in Georgetown. It was a lovely place, I must say, and lovely people, and I thoroughly enjoyed myself. But while I am at a place like that, I also from time to time like to step out just very quietly and speak to some of the people who are serving that night or catering or cooking, or whatever they are doing, because, you know, I just want to speak to them. So I did.

I just very quietly went off to the side, and I spoke to one of the waiters. And I just said, "Listen, you all are doing a wonderful job tonight. Everything is very beautiful. And I just want to congratulate you and thank you."

And then I got ready to move on back to the dinner party, and the guy says to me, "Governor, I live in Alexandria, right across the river, and I sure do appreciate you cutting that car tax."

And the truth of the matter is that I hear that all the time. I come to Washington from time to time, and I have an opportunity to be in the Capital and I have a chance to speak to Congressmen and women, and from time to time I talk to them about the tax cuts, but really the focus of attention is by the staffers. As I am escorted into the Congressman's or the Senator's offices, it is the staffers who say, "He'll see you now, and by the way, thanks for cutting the car tax."

The truth is that—there is laughing because they know I speak the truth—the truth is that, for the well-to-do, the elimination of a tax like that on people's automobiles is a symbolic, important principle that says that government will not take it all, but for people in modest circumstances it is materially important as to whether or not they are able to get a tax refund.

I had one elderly couple—actually, the daughter of an elderly couple—come to me and say to me that, when their parents got back $120 on this car tax cut, it made a difference on the quality of medicine that her parents were able to buy that month. So it does make a significant difference.

In fact, I think tax relief is primarily a help to the modest and middle class and those of modest means, because they are the ones that are trying to climb the ladder of success. The people up there already have it, but the people who are trying to get some place need to have as much of their own capital as they can—to buy a better education for their kids, for their students; to do startup, and to be able to have some resources. Our experience is that tax cuts matter most to the people in the middle class and those people who are in need.

Mr. BURTON. Let me ask you, your overall economy, has it benefited from the tax cuts, in your opinion, and if so, how has it benefited?

Governor GILMORE. Well, first, let me speak to you about the Virginia economy. We are a rocketing economy, I must say. We think, I think, traditionally, would hope to see an economy in a State or

in the United States, or in even some countries, where they are mature or growing economies, an increase of revenues in 3 or 4 percent, perhaps 5 or 6 in a strong economy. Virginia's revenues are growing at nearly 11 percent.

Mr. BURTON. Eleven percent?

Governor GILMORE. Almost 11, about 10.5, in, again, our growth of revenues.

Mr. BURTON. And, finally, based upon your experience in Virginia, do you think that tax cuts at the Federal level would stimulate economic growth and more revenues coming to the Treasury?

Governor GILMORE. Yes, we believe it would stimulate—we believe it will stimulate the economy of Virginia, as people expend the cash in order to increase the quality of their lives, and we are convinced that it would stimulate the economy at the Federal level as well.

But, you know, Mr. Chairman, the heart of this is, less that, we believe that if we produce jobs and we have a pro-growth economy in Virginia, and we produce jobs as we are, and they are good-paying jobs, that the revenues are going to be coming in. And then you have to make a separate question altogether, and this is, what is right and just and humane for the individual citizens? And that means that we are doing it to materially help people, and that a portion of these kinds of revenues ought to be returned or never taken in the first place.

I cannot resist making an analogy. You know, we are doing everything we can do at the State level, and the other States are as well. And I think that we are succeeding, and we are doing very, very well. But the money is here. The Federal Government has the money. And this is where you can really help people, if you can reduce the Federal taxes.

I was stunned the other day to see that the last time that we had this level of taxation in the United States was in the height of the Second World War, when people were willing to make sacrifices out of a sense of survival. In a battle with the Japanese and the Germans, the people of the United States were prepared to surrender over 20 percent of their income to the Federal Government.

Not only are we not in a life-threatening war right now, although we are in two wars, but we are not in a life-threatening war, the cold war is even over. And, yet, we are at this point once again over 20 percent.

Now let me just mention something. We have two funds in Virginia, an earmarked fund called the non-general fund and then the general fund, which is a discretionary pot of money that we use for all the programs through the legislation. When we implement all of this, we will be cutting taxes in Virginia about 10 percent of the general fund.

I asked a little while ago, if the Federal Government were to follow Virginia's lead and cut revenues 10 percent, how much would it be? I don't think I know. How much would it be if we were to cut the Federal Government 10 percent, as we are doing quite successfully in Virginia? How much would it be? I think the counsel thought, or someone thought, that it might be $1.6 trillion. It is an enormous amount of money. If we can do it in Virginia, the Federal Government can certainly do it.

Mr. BURTON. I think that is a great challenge, and we will commit that recommendation to some of our colleagues.

Let me end my questioning by just saying or asking, how many administrations in the past 30 or 40 years have cut taxes in Virginia, and are you one of the first?

Governor GILMORE. We are the first. The previous Republican administration attempted a tax cut, but it was beaten back. Governor Wilder, before that, actually got through a tax cut, I think, on nonprescription drugs, but it was never funded. It was funded at the end of the last Republican administration, but it was modest. The first major initiative on tax cuts has been in this administration. It has been very difficult to do. There is no tradition of tax cuts in Virginia—none. So we are doing it now.

Mr. BURTON. Well, you are to be congratulated.

And, with that, I will yield back my time, and I guess we will go to Chairman Gilman.

Governor GILMORE. Thank you, Mr. Chairman.

Mr. GILMAN. Thank you, Mr. Chairman. I want to thank you for conducting this interesting series of discussions with our leading Governors.

Governor Gilmore, I appreciated seeing all the good things you have done in your State. If you had the choice of reducing a Federal tax, one Federal tax, which would you consider to be the most important that you would recommend?

Governor GILMORE. My thinking at this point is that I would avoid a targeted tax at the Federal level, and, instead, do an across-the-board tax cut. You can debate which or how much or in what manner, but I think that I would be hesitant to go and pick one tax at the Federal level, you see, because that doesn't sustain the Federal problem; that doesn't address the Federal problem.

The Federal problem is that taxes across the board are too high at the Federal level. When you add, of course, all taxes that are coming out, the FICA, and then put the rest of the income tax with it, it is just enormous. The income tax alone is at 20 percent. And I don't think you can reasonably reduce the 20 percent by going to any particular targeted tax cut at the Federal level.

We were able to do it in Virginia because we are a relatively low-tax State, and we wanted to address that which was hurting people the very most. I think what is hurting people the most in this country today is these high tax rates that are at the Federal level, Congressman Gilman.

Mr. GILMAN. You have a sales tax in Virginia, do you not?

Governor GILMORE. Yes, sir, we do.

Mr. GILMAN. And what is its percentage?

Governor GILMORE. The percentage of the sales tax in Virginia is 4.5 percent.

Mr. GILMAN. How do you feel about a national sales tax that has been suggested in place of some other taxes?

Governor GILMORE. No, I don't think adding taxes or trading them off is the answer. I think that trying to mix and trying to substitute one tax for another is probably not a good approach, and I would not propose a national sales tax at all. To the contrary, the objective here, I think, is to cut taxes, and I think cutting the income tax rates is the right answer.

Mr. GILMAN. And how do you feel about a flat tax that has been proposed?

Governor HUCKABEE. Well, I think that it is one offered reform that ought to be considered among the other proposals that are out there. I certainly have not embraced that concept yet, but I think that it has to be considered among all the other proposals.

But the objective of the exercise here—that, of course, is a way of maybe changing the mix in terms of the type of tax burden that is before us, but the objective here should always be to reduce the burden of taxes to the greatest extent possible.

And I want to point out that the reason for it cannot be lost. It is to give people the opportunity to empower themselves, to improve their lives. We all understand that capital is what makes the world go around. It is the ability to define not only a person's quality of life, but the opportunity to get themselves a leg up and be independent. We should be striving for all Americans to be independent of the government.

Mr. GILMAN. Well, I want to thank you again, Governor, for coming before our committee and for your great thoughts on what you did with your tax structure. I think we will benefit from it. Thank you, Governor.

Governor GILMORE. Thank you, Congressman Gilman.

Mr. BURTON. Thank you, Chairman Gilman. Mrs. Morella.

Mrs. MORELLA. It is a great pleasure to have you before us, Governor Gilmore. I have got great admiration for you, and I know we have worked together across the river on mutual concerns.

I guess I would like to ask you that: Do you work with the Governor of Maryland, and how do you interface with the District of Columbia? And would you make any suggestions about how relationships could be improved or enhanced?

Governor GILMORE. Your question was, do I work with the Governor of Maryland? Yes. It is strictly business, but we do have, I think, the ability to work together when we think that it is of mutual benefit to the people of Maryland and the people of Virginia. We have worked together, I must say, on our efforts to build the Woodrow Wilson Bridge, the Federal bridge, which is going to be in the river very soon now. We are working together to try to achieve that, and he and I have worked together on some areas in the environment as well.

With respect to the new Mayor of Washington, DC, I met him for the first time the other night, coincidentally, by the way, at that very same dinner party that I made reference to earlier. And I am confident that we are going to be able to find ways to work together to help the people of this community.

I must tell you, however, that my aspiration in life is to draw the Commonwealth of Virginia together as one unified State. It is a very difficult thing to do because we are so very big and so very diverse, but particularly so very big. When you get out to Lee County, where I happen to have been several days ago, you are west of Detroit, MI. So you have to think about how big this State is.

So, in consequence, to come to the point, northern Virginia should be a wonderful partner with Maryland and with Washington, DC, and I aspire to that. But they are not part of a region.

They are part of Virginia, and we are working very hard to make sure that we include them intimately and carefully in everything that we are doing in the State, but I believe that Virginia, Maryland, and the District can work together in a variety of ways. For example, an Olympic bid, I suspect we are going to be working together on that as well.

Mrs. MORELLA. You made a lot of accomplishments with regard to education, particularly higher education. I must say I think you have got some quite good programs in terms of job training programs. Would you like to comment on any of those? And high technology? Some of those things, I think, can be regional. I mean, we can work together in terms of doing some of the training. I wondered if you might want to explain some of the achievements in terms of higher education particularly, or even secondary education, because I think that is so much a part of this work force that you talk about, and it is so much a part of the growth and development.

Governor GILMORE. We are very proud of our higher education system in Virginia. It contains landmark universities such as, for example, the University of Virginia, Virginia Tech, and William and Mary—national quality universities.

Mrs. MORELLA. One of my sons went to Washington and Lee.

Governor GILMORE. Oh, Washington and Lee, one of our excellent private schools that we have in Virginia as well, of which we have a large number.

So higher education in Virginia is a great value, and we have been very successful. I am emphasizing right now the importance of the recognition that Virginia has a higher education policy, and that is to make higher education a high value and very accessible to the young men and women of Virginia. As such, we need to remember that our colleges and universities are a part of the public policy of Virginia, which places a very high importance on higher education. Therefore, they must be accountable to the people of Virginia, through their government, in order to effectuate that. Our quality must be maintained, and, in fact, it must accelerate. I believe that it will.

And then, of course, with respect to affordability, I have been very concerned, once again, by just regular folks out there that want to send their kids to college. That is what our public colleges and universities are for. They are for our young people in the State to make sure they get an education. Such accessibility is very important.

Therefore, I have cut tuitions in the State, through the legislature this past session, 20 percent across the board. The colleges, however, are not suffering a 20 percent loss of revenue. We are taking our money at the State level and committing it to higher education, so they made up that 20 percent. But, in the meanwhile, the parents and the young people or students are going to benefit from that 20 percent cut, and that will attract more and more people to the schools.

Why is that? It is important to do because it is going to help our work force, and particularly people in sophisticated engineering and technology areas, which are so important to Virginia today.

And in addition to that, in K through 12, we have wonderful standards of learning. I just was able, also, to get through our general assembly an aid to localities by taking our lottery money and returning it back to the localities in its entirety for education.

So education is a top priority for us in Virginia. Our work force, through our community colleges and through all these programs, is going to, I believe, fuel the sophisticated technology economy we have. What result? Greater revenues, greater opportunities for quality of life. And then when the time comes to set priorities, I believe tax cuts are just as important a priority as anything else, maybe more important—other than national security, maybe more important—because it gives the opportunity to genuinely extend the quality of life back to working men and women.

Mrs. MORELLA. Tomorrow the District of Columbia Subcommittee is probably going to be marking up the bill that Mr. Davis has introduced, and I am a co-sponsor, dealing with tuition benefits in other schools, in State schools, that would be paid for by the District of Columbia. I am just curious about your reaction to that.

Governor GILMORE. Is this a bill to extend some tuition benefits to young people within the District for District of Columbia——

Mrs. MORELLA. Right. They would then pay the in-state tuition.

Governor GILMORE. I think it would mirror the high priority that we place in Virginia on public education and making sure young people have accessibility to it. It would mirror the 20 percent tuition cut that we have done in Virginia. It is just a different format. And I would encourage it.

Mrs. MORELLA. Thank you. Thank you again for appearing before us. We look forward to continuing to work with you. Thank you.

Governor GILMORE. Thank you, Congresswoman Morella.

Mr. BURTON. Mr. Davis.

Mr. DAVIS OF VIRGINIA. Thank you.

Governor, let me ask a question. I was also surprised when I heard the President talk about tax cuts being selfish. He almost repeated the same thing this year up in Buffalo, NY, where he said we have a surplus and we could give it to the people and let them—"let you spend, and hope you spend it the right way." And that is why he likes the targeted tax cuts, which means that if you spend the money the way the government wants you to, they will give you a tax cut, but if you use your—if your view of your priorities is different from the ones government has for you, you don't get it. That would kind of be the prevailing philosophy.

But I wonder if you could talk to us about what this means to businesses, being competitive in the State of Virginia, as they get money back, and what it means to individual families in terms of being attracted to an area, and how that helps an economy grow.

Governor GILMORE. First of all, I am prompted by your question to respond directly to you: Once again, the great value that we are trying to achieve here is the freedom of people. Virginians think about this very much. It is the freedom of people, the enabling of people. What business is it of ours how they spend their money? It isn't our business. It is their money. They should contribute it to the National Government to the extent that it is necessary in order to carry out the essential parts of government that are necessary for all of us, but, beyond that, this is precious revenue which

is necessary for them to be free people. If you tax everything that everybody has, then they are not free anymore; they have to decide how they are going to live based upon how the government makes those definitions, just as you point out, Congressman Davis.

So this is about liberating and freeing people. It is a great philosophical goal and objective that we have. And you may think, gee, we would never tax at all the way that they did in the Soviet Union or something like that, but we are taking 32 percent—32 percent. We just manage to do it in a way that people don't always notice. And we are living in wonderful times, so that people can increase their revenues in a way where they just don't notice how much money they are spending. But the question really to ask is: What more could they do for their children? What better home could they buy? Could they have an improved quality of life? So it is really about the freedom of people.

The second part of your question was a practical one with respect to the attraction of business. It is true that we have in our State a pro-tax cut and pro-business philosophy, not because we think that it is better to help the rich or anything like that. It is because we believe that it is the ability to provide more and better quality jobs for people, so that individuals can be working successfully and self-actualizing through their careers.

We are doing that, particularly in your community, Congressman Davis, in northern Virginia fairly well. We are bringing in more jobs every day, more sophisticated work, and it is, in fact, the income tax which is driving the revenues of Virginia, and driving it very well. But we are in a position now to continue to in a measured way return money back to businesses and to the people of Virginia.

A couple of technical matters: We did some additional reforms this year that I am very proud of. We are increasing Enterprise Zones, which gives tax breaks to people in specific areas, particularly places where we need to employ people.

We just did an exemption on the sales tax on Internet equipment, communications equipment, which makes us one of the most attractive States in America for the development and establishment of Internet companies. And these are just a couple of examples.

We believe we can do this, and the result is going to be better jobs. I think the proof is in the record. We are doing, I think, very aggressive development work in Virginia. As a result, the revenues are phenomenal really.

Mr. DAVIS OF VIRGINIA. So you believe there is a tie between increased business activity, which produces more revenues, and allowing those businesses to keep more of what they earn?

Governor GILMORE. Yes, indeed, because it is capital that they have that they don't have to then borrow. But the goal, again, is not to enrichen the companies. The goal is to create jobs and greater opportunities and economic opportunity, which is to the benefit of the people.

Mr. DAVIS OF VIRGINIA. Exactly.

If we were to hit a recession right now, a shorter period—I know you were careful in putting the tax cut together originally to say this was going to be dependent on economic growth; that you

weren't trying to slash the school budget to pieces or anything else to do this that you would have to retract.

What is the outlook now for the Virginia economy over, let's say, the next couple of years?

Governor GILMORE. Well, there is no evidence of any type of downturn in Virginia that would be unseparated from a national downturn. I think it is clear that, if there is a national downturn, we would have one in Virginia as well. There is no evidence of it that we can foresee on the horizon. But even if there was, we are confident that we are in a position to continue to provide the essential services that we ought to provide.

But I want to make one more point that sometimes I think that some members, some individuals in the committee have not fully grasped, and that is that the return of tax money back to the people as an independent value of itself, to improve the quality of life of people and their liberties and freedoms, itself is a value on the table, and it should not be first off the table in the case of a downturn. Instead, we should be demanding in our management to make sure that we select our priorities well and we run our government in the proper way. But that doesn't mean that the taxpayer is the first one to be thrown overboard.

Mr. DAVIS OF VIRGINIA. Well, I appreciate your taking the time to be with us here today. I think your message, when this was first announced, there was kind of—everybody was scratching their heads; the pundits weren't sure what to do with it; the papers ridiculed it. You stayed on message, and now you are following through. I think you have made believers out of a lot of people who a couple of years ago weren't sure where all this could—Virginia's economy I think is just a great example of how these work. So thank you very much.

Governor GILMORE. Thank you, Congressman Davis.

Mr. BURTON. Mr. Ose.

Mr. OSE. Thank you, Mr. Chairman.

Governor, thank you for being here today. When I have the opportunity to visit with folks like yourself, who have a long history in elected office, who take the time to come visit, I always learn something, and I appreciate that.

My background is real estate development, which is tied to local land use. I see across the river here a remarkable degree of enterprise and creativity, and I give you and your colleagues credit for that.

One of the things I am concerned about remains the tendency of some here in Washington to, in effect, push or grab decisionmaking that ought to be left to local entities and aggregate it to Washington. I am somewhat amused by what appears to be the Vice President's campaign for mayor in terms of land use decisions and traffic questions, and something like that. And the consequences that it has at the local level from a tax-level perspective—in other words, if all that power is aggregated for land use decisions and infrastructure improvements for sewers, and what have you, to a mayor that sits at 1600 Pennsylvania, together with the taxing ability to impose the cost and the benefits, what is the consequence, for instance, across the river in the balance of your State?

Governor GILMORE. Let me say two thoughts. First, we care very much about the quality of life in the localities in Virginia. We never forget for a moment what is going on in Arlington or in Alexandria, or especially in Fairfax. We just never forget that. And so our policy on the spending side, if you will, is to devote more and more money back to the localities for their essential needs.

The lottery money in Virginia this year has passed through the legislature, on my initiative, to be returned to the localities for education, K–12 education, entirely. In addition, old commitments to return money back to support local law enforcement, we are keeping those promises now, and we are sending that back as well. So we care very much about how our policies impact upon the locality.

I think you asked the question, what consequence is there in much of these decisions that we make on localities? Well, you know, it could be the loss of just individual liberty to choose how people are going to live. If we make a concept in Washington, or even in Richmond, that we know how people ought to live, you could begin to deny some choices for people to own their own homes or to have their own cars or to define their own lives, and I am never in favor of that.

Mr. OSE. Looking at your résumé, you were a county Commonwealth attorney. So you have vast experience at the local level, having served there for 6 or 7 years.

Governor GILMORE. I do, although that is a prosecutor's office.

Mr. OSE. You are still dealing with the consequence at the local level?

Governor GILMORE. Every day.

Mr. OSE. And I just cannot hammer home or re-emphasize your point about local people making local decisions for the local benefit—I mean the consequence of that. I want to encourage you to continue on. Frankly, I am trying to keep myself from delving into local land use matters because, I have got to tell you, I have plenty of opportunity; I just don't need to do it. I have enough problems, as a Congressman, considering Social Security or Kosovo or trade, or what have you. I don't need to be mayor also.

I very much appreciate your respect for that, and I thank you for coming today.

Governor GILMORE. Thank you, Congressman.

Mr. BURTON. Thank you, Mr. Ose.

Well, Governor, we really appreciate you taking time out of your busy schedule to be with us. You are my quasi-Governor since I live near Old Town Alexandria, and I am very proud of what you have done. Like I said, I knew when you said you were going to cut that car tax you were going to win that election. I was one of those fellows that looked into the crystal ball way ahead of time, and I don't care what the pundits said; you were right on target.

Thank you again for being here, and thank you for sending Mr. Davis, your old college buddy, to be a Congressman here. He has done a great job.

Governor GILMORE. We think so, too. Thank you, Mr. Chairman.

Mr. BURTON. Thank you, Governor.

We stand adjourned.

[Whereupon, at 4 p.m., the committee was adjourned.]

NATIONAL PROBLEMS, LOCAL SOLUTIONS: FEDERALISM AT WORK
PART II
TAX REFORM IN THE STATES

THURSDAY, APRIL 15, 1999

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10:25 a.m., in room 2154, Rayburn House Office Building, Hon. Dan Burton (chairman of the committee) presiding.

Present: Representatives Burton, Shays, Ros-Lehtinen, McHugh, Horn, Mica, McIntosh, LaTourette, Hutchinson, Biggert, Walden, Ose, Ryan, Chenoweth, Towns, Maloney, Norton, Cummings, Kucinich, and Schakowsky.

Also present: Representatives Lazio and Meeks.

Staff present: Kevin Binger, staff director; Barbara Comstock, chief counsel; David A. Kass, deputy counsel and parliamentarian; John (Timothy) Griffin, senior counsel; John Mastranadi, investigator; James Wilson, chief investigative counsel; Mark Corallo, director of communications; John Williams, deputy communications director; Carla J. Martin, chief clerk; Lisa Smith-Arafune, deputy chief clerk; Nicole Petrosino, legislative aide; Corinne Zaccagnini, systems administrator; Jacqueline Moran, legislative aide; Phil Schiliro, minority staff director; Phil Barnett, minority chief counsel; David Sadkin, minority counsel; Ellen Rayner, minority chief clerk; and Jean Gosa, minority staff assistant.

Mr. BURTON. Good morning, a quorum being present, the Committee on Government Reform will come to order. And I ask unanimous consent that all Members and witnesses opening statements be included in the record. And without objection, so ordered.

Good morning. How are you? We have the Honorable Rick Lazio here with the Governor. Today we are to going to hear from Governor Pataki of New York. Governor Pataki inherited a legacy of high taxes and out-of-control spending. Since his election in 1994, he has sought to bring fiscal responsibility to the government in Albany and was soundly affirmed by his reelection in 1998.

Governor Pataki's record of tax reform is nothing short of remarkable. He has cut income taxes by 25 percent, for a savings to the taxpayer of $3 billion. And in 1996, he worked to repeal school taxes, farm taxes, the death tax, and the 10 percent real estate transfer-gains tax, otherwise known as the Cuomo tax. It is interesting to note that with all of these tax cuts, the New York econ-

omy has generated more income tax revenue than it ever did under the previous Governor.

I see that Mr. Waxman is not here. Do any of my colleagues have any kind of opening remarks they would like to make on the Democratic side? Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman. Let me say that I am delighted to see my Governor here and, of course, though more than cutting taxes, I think the thing that has happened is the fact that he has increased tourism in the State of New York which has also lead to additional income and revenue. And I think that is the thing that should be highlighted. You know, if you have other things going and then you can produce revenue, then you can look at taxes, I think that the Governor has done that.

And I would like to salute him for that, of course, in terms of bringing additional folks in to our State, spend more money. And I think that is the key. So, Governor, delighted to see you and happy that you are here. And to say that you know when you talk about cutting taxes, you didn't just look at it in one way, you looked at it from a comprehensive approach. And I think that is the thing that makes sense to me.

Governor PATAKI. Thank you.

Mr. TOWNS. Glad to see you.

Mr. BURTON. Thank you, Mr. Towns. Do any other Members have opening statements they would like to make? Mr. Shays.

Mr. SHAYS. Just very briefly. Governor, it is great to have you here. I love what you have done for the city of New York, which is a place where a lot of my constituents work. You have done a tremendous job, and Connecticut is a better place because of what you have done for New York.

Governor PATAKI. Thank you.

Mr. BURTON. Any other comments? If not, the Honorable Mr. McHugh of New York who is one of my subcommittee chairman and a very fine representative in the Congress of the United States from New York will introduce the gentleman who is going to introduce the Governor.

Mr. MCHUGH. Thank you for the chance, Mr. Chairman. Thank you, sir. Let me, first of all, Mr. Chairman, thank you for the continuation of these very timely and very important hearings. It is no secret to the vast majority of Americans that this is the beloved tax day. Like millions and millions of citizens of this great Nation, I was trying to finish up my taxes last evening.

And, in fact, in my case, it was my State. I can tell you from personal experience that, thanks to the efforts of our honored guest here today, I still had to pay, but I had to pay significantly less. Governor, I thank you for that savings and for the savings on my aspirin budget that your hard work has accrued to me personally.

It is, as you noted, Mr. Chairman, my honor today to introduce a gentleman who is accompanying the Governor at the front table. New York is, if nothing else, a highly diversified and varied State. Sometimes we tend to divide ourselves geographically and to differ on things not depending, not so much on our partisan politics, but on our location. But I can tell you that more often than not, we have a delegation in this city and in this Congress that works to-

gether incredibly well and works across varying lines of interest, be they geographical or otherwise.

I think that is particularly true with my friend Rick Lazio. Rick has done an extraordinary job, not just as a Member of this House and this Body, but in his duties now as deputy majority leader. He is the individual to whom all of us look, Democrat and Republican alike, to provide access to our leadership, to ensure that the needs of New York and our views and concerns are heard and felt.

But even more to the point, in his service as chairman of the Housing and Urban Development Subcommittee, where he has done a tremendously effective job fighting for adequate affordable and safe housing for every New York State resident, be they from Massena or Montauk or somewhere in between. So it is a delight to see him somewhere other than in my district, where he has been spending a considerable amount of time in recent weeks and days. As he examines his future I feel very confident that, whatever path he chooses, it will be highly successful.

So with that, Mr. Chairman, I appreciate the honor of introducing my friend, our colleague, Congressman Rick Lazio. Rick.

Mr. BURTON. Mr. Lazio.

Mr. LAZIO. Thank you, Mr. Chairman. Thank you very much, John, for those very generous remarks. And, Mr. Chairman, and my colleagues on both sides of the aisle, how pleased I am to see you here. Great vantage point to be down here looking at you to be recognized. T.S. Sullivan wrote, April is the cruelest month. As some people say it was because of his reflection on childhood indiscretions, about unpredictability of this month in terms of its weather, but I think it was just because he failed to pay his estimated quarterly taxes. And so today is a great day to be hearing from one of the Nation's premiere tax cutters.

He is a perfect choice to talk about tax reduction at the State level. Governor Pataki has received numerous awards for his focus on economic strength and recovery through a fairer tax system from New York's people and for its businesses. Governor Pataki, as the chairman has noted, has cut personal income taxes for New Yorkers by 25 percent. You may want to look at the burden of high property taxes.

Under the previous administration, New Yorkers, particularly senior citizens, were losing their homes because they couldn't afford to pay their property taxes. Governor George Pataki has slashed property taxes an average of 27 percent and a staggering 45 percent for New York seniors.

Now, tax reform may sound like a dry, dull subject; but when you meet an older person who has been able to stay in the home they love as a result of the Governor's reforms, you will agree that taxes are truly a quality of life issue.

And as a clear sign of the Governor's intention to New York's economy of the future, New York became the first State to declare the Internet a tax-free zone. Governor Pataki has cut taxes 36 times in his first 4 years in office, more than any other Governor in the Nation, saving New York taxpayers and businesses $19 billion so far. In fact, in 1996, he cut taxes more than all other States combined.

The Governor's tax cuts are reinvigorating what was once the most—strongest and diversified economy in the Nation and helping bring back to our State and our citizens and the jobs and the optimism that bring building strong communities and better lives. We in Washington should take this example to heart.

I am honored to introduce the great Governor of the State of New York, he is my friend, and my colleague, Governor George Pataki.

Mr. BURTON. Governor, welcome, and a basketball fan.

STATEMENT OF GEORGE A. PATAKI, GOVERNOR, STATE OF NEW YORK

Governor PATAKI. And a basketball fan.

Mr. BURTON. New York Knicks fan.

Governor PATAKI. Absolutely. Chairman Burton, thank you, and I appreciate the opportunity to testify before this committee this morning. Let me thank Congressman Lazio for that terrific introduction and for the great job he does for the people of this State. And I also want to acknowledge and thank Congressman Shays for his kind words. While Connecticut and New Jersey and New York occasionally compete, we all know that if we adopt the right policies, ultimately all of our States will be stronger.

And, Congressman McHugh, I thank you for the tremendous job you have done first in the State legislature and now down here helping us in Washington. And, Congressman Towns, thank you for your kind words. I very much appreciate it.

As Congressman McHugh noted, we are one State, and we have tried to take a comprehensive approach not just to the issue of taxes, but to the future of this State. And I know you are concerned, whether it is central Brooklyn or the central Adirondacks to make sure this State is stronger; and we are better because of that.

Chairman, if I may, I have some testimony, and let me say I am pleased to be offering it on April 15. This is, as everybody referred to, tax day. It should be tax freedom day, but it is not because for the average American family, they have to work into May before they are finished paying simply their tax obligation. I think that is wrong. And we have tried very hard in New York State to correct that.

For me and for many Republican Governors across this great country, we have been doing hard work in the area of taxes—Governer Bush, Governor Engler, Governor Whitman, Governor Huckabee, Governor Gilmore, and many others—this is more than just an issue of economics. For us, cutting taxes is a matter of fulfilling government's fundamental obligation to the people.

It all comes down to one simple question. Whose money is it anyway? In State capitols across our country, Governors are declaring without hesitation that the people's hard fought earnings belong to the people and not to the government. I am proud to be able to tell you that in no State has this basic fact of life been declared more clearly and more emphatically than in New York State.

I know it may come as a shock to you given New York's history and particularly its reputation under my predecessor, but it is true. In the 4 years since I have taken office, New York has cut taxes more than any other State. We have cut taxes 36 times, returning

$19 billion to the taxpayers, that is $19 billion to the taxpayers so far. And when all of the tax cuts on the books take full effect, that number will grow to over $52 billion.

Our tax cutting has sparked a new direction in New York State. We were once a State in crisis. Now our largest business organization calls us "the comeback State." I mean, New York State has gotten so much better than before, that even the First Lady of America is thinking of moving to New York State. What better testament to the success of our policies?

But perhaps there is no greater evidence of the profound turnaround in New York than the fact that the Governor of the place that once led the Nation in raising taxes is here today talking to Congress about how to cut taxes. As they used to say in Brooklyn, "Who would'a thunk it?" Congressman Towns knows that is correct Brooklynese.

Before I talk more specifically about what we have done with taxes in New York, I want to address the broader issue of freedom, because I don't think you can separate the two. If ever there were two things that had an inverse relationship, it is taxes and freedom. The more you have of one, it is necessarily so that you must have less of the other.

The more money a person has seized from them by government, the less freedom that person has to do what he or she wants with that money. It could not be any simpler.

Now many Americans have come to accept taxation as a necessary evil. They accept the fact that they have to surrender some of their earnings and, consequently, a degree of their financial freedom to sustain our government. The point I would like to make today is that excessive taxation does more than infringe on people's financial freedom. It drives up spending, and creates a bigger and more intrusive government that inevitably infringes on other freedoms as well.

By nature, as we in government all know, government has an insatiable appetite, an inherent desire to grow. When politicians raise taxes beyond what is necessary to fulfill government's legitimate function, they feed that growth and produce not just a bigger government, but a costlier government that becomes a destructive force in people's lives. It created a destructive cycle of high taxes, perpetuating more bureaucracy and more spending, which in turn perpetuated more taxes and less economic freedom for the people who pay those taxes.

But the cycle doesn't end there. Excess bureaucracy created by overtaxation produces, not just more spending and further encroachments on people's economic freedom, but new limits on other freedoms. Because bureaucrats without a legitimate function have to justify their existence by creating an ostensible function.

In New York, bureaucrats justify their existence by generating scores of new rules and regulations, and government would use those regulations to assert itself over the people in every aspect of their daily lives.

Most of the regulations, however, were aimed at businesses, putting the men and women who create jobs under the close supervision of a government that sought to dictate their every move. It doesn't work. What you had in New York was an endless cycle of

high taxes leading to big bureaucracies and more regulations which led to higher taxes and bigger bureaucracies and even more regulations. This went on for more than a decade, and the results were devastating.

Let me just paint a picture of New York in 1994 for you. And bear with me, because as dismal as it seems, the story has a happy ending. And I might point out that in the end of 1994, we were 3 years into a national economic expansion following the earlier recession.

When I took office in January 1995, New York was in crisis. The State government was too big, too bossy, too expensive. It faced a budget deficit totaling a record $5 billion, a $5 billion deficit, a deficit larger than the budgets of 31 other States. The promise of tax relief had turned into a cruel hoax.

Our welfare roles were bursting, and jobs were on the run. The biggest taxes, income taxes, property taxes and school taxes, were all rising every year at an alarming rate. But there were other taxes as well, the sales tax, the estate tax, hidden taxes on goods and services, and scores of taxes that were imposed on businesses and paid by consumers.

All of those taxes served one purpose and one purpose only, to drive up spending and feed a government that was out of touch, and out of control. And that destructive cycle of taxes, more bureaucracy, more spending, more taxes, and less freedom was in full throttle.

As government got more, families got less. As bureaucracies thrived, business suffered. Taxes were literally destroying the greatest State in America.

Together with our allies in the State legislature, we confronted that crisis. From our first day, we held to a fundamental covenant that says, at all times and without exception, respect the people and let them lead the way toward real progress. And in a State where the guiding principle is respect for the people, big government and big government taxation simply does not compute; that is why, in New York, we have embarked on the most ambitious campaign of tax cutting in the State's history. It is working.

In fact, our philosophy is working so well, that it has created a new challenge for us. In that first year, 1995, we had to manage crisis. In 1999, our challenge in New York is to manage prosperity. Today, taxes aren't going up every year as they have been; they are going down by record amounts.

Private-sector jobs aren't going down as they did in the 1990's when the rest of the country was creating millions of new jobs, and New York lost 400,000 more. They are going up and jobs are now at the highest level ever in New York State history.

But economic revitalization has been the key to solving one of New York's most serious problems. When I took office, 1 out of every 11 New Yorkers was on welfare. Think about it; 1 out of 11 residents of our State, my State, and 1 out of every 7 residents in New York City was trapped on welfare. But today the welfare roles are shrinking every day, and people are finding the freedom that comes with work. Welfare roles are down by 653,000 people since January 1995.

And they have fallen below the 1 million mark for the first time since December 1967. And, Mr. Chairman, let me thank you and your colleagues in Congress for passing the welfare reform legislation that gave the States the ability to tailor our programs to meet the needs of our particular States. It is one of the major reasons we have had this tremendous success.

Families are buying new homes and refinancing their old ones, which says they are planning to stay in New York and build their future there. It is hard to think of a tax we haven't cut. We began by cutting income taxes. Today—the vast majority of New Yorkers pay 25 percent less on income taxes than they did in 1994.

We are cutting income taxes, business taxes, and school property taxes. Taxes are being cut for small business people, family farmers, senior citizens, working families, and retired couples. We are cutting taxes on entrepreneurs trying to start businesses, businesses trying to grow jobs, and on people trying to find work.

We are cutting taxes for families who are both buying clothes for their children and saving for their college education. Across the board and in every conceivable category, taxes are falling in ways some thought were impossible.

When we first proposed cutting income taxes 25 percent, there were some who swore we could never actually do it. But we did, and it is saving New Yorkers $5 billion every year and helping revitalize our economy.

There was once a time when New York was one of only a handful of States that imposed its own estate taxes on estates. But this year New York's added-tax on death finally dies along with the added-gift tax.

Once upon a time, we not only had one of the highest corporate income tax rates in the Nation, but we had a 15 percent surcharge on top of that. We got rid of the surcharge, and this year the corporate income tax rate starts coming down too. When all is said and done, New York's corporate tax rate will be at its lowest rate since 1970.

There is more. We cut the corporate franchise tax, the gross receipts tax, the real property transfer tax, the tax on motor fuel, the container tax, and the tax on beer. We cut bank taxes, insurance taxes, and the petroleum business tax. And we cut the tax that had the dubious honor of being named after my predecessor the so-called "Cuomo tax." That was a transfer tax of 10 percent on all real estate transactions over $1 million, a true job killer that was wreaking havoc on New York's real estate investment industry.

When Governor Cuomo signed it into law, he called it the perfect tax. As it turned out, he was half right. It was the perfect tax for New Jersey or Connecticut, for Georgia or North Carolina, but it was a disaster for New York State.

In 1997, we did something else unprecedented. We signed a law called the STAR Program, that cut school property taxes for every homeowner in New York for the first time in New York State history. This truly is remarkable, because New York—and in New York, the State doesn't even levy school taxes, the localities do, and so essentially the State is cutting taxes we don't even impose, and reimbursing local governments for the lost revenue.

And the reason we can afford to do that is because we have reduced the size and costs of government so dramatically. As Congressman Lazio pointed out, our STAR Program is cutting school taxes by 27 percent on average and seniors are seeing now a cut of more than 45 percent in their school taxes, and in 10 of New York's 62 counties the average senior citizen now pays no school taxes at all.

In 1996, we not only lead the Nation in cutting taxes, we cut taxes by more than the other 49 States combined. And in 1997, we cut taxes by more than Texas, California and Illinois combined. New York's Public Policy Institute, a pro-growth think tank, calculated all of our tax cuts and then considered what they would mean here on the Federal level. They said that if equivalent tax cuts were done nationally, Americans would save over $300 billion.

We have had great progress in New York, but there is much more to do. This year I proposed another billion dollars in tax cuts including a $600 million income tax cut that will raise the threshold at which the maximum State tax rate applies, and it doubles the deduction for dependent children. Another 5 million taxpayers, including tens of thousands of small businesses, will see major savings.

Bad tax policy goes beyond bad taxes. There is the bureaucratic mindset perpetuated by those taxes. This year I sent the legislature a bill that will remove one of the great absurdities from the State's tax code.

For years, hundreds of thousands of New Yorkers have had to file State income tax returns every year, even though both they and the State know they will owe no tax. It takes 2 minutes to figure it out, but State law makes them file anyway. It is a waste of the taxpayer's time, and a waste of taxpayer's money. Because guess where the dollars come from to pay for the processing of those useless tax returns?

If ever there was a tribute to twisted bureaucratic logic, this is it. By raising the taxable income needed to file a State return, to match the State's standard deduction, a simple commonsense proposal, we can wipe this dumb rule off the books for good. And in the process, we will help 500,000 New Yorkers, mostly seniors, by relieving them of the paperwork that they never should have had to deal with in the first place.

The States have proven that cutting taxes works, but putting tax cuts on the books is only part of the winning formula. New York was once run by those who would approve tax cuts, then delay them, and then totally forget about them, and finally, turn around and raise taxes.

The tax-cut movement cannot be allowed to become a blip on the screen of our State's or Nation's history. The act of raising taxes is a destructive act and should therefore be a difficult act.

Last week, I joined with Congressman Joe Barton of Texas, in calling for constitutional amendments that would require supermajority approval for any tax increases. At the State and Federal levels, requiring a two-thirds vote for any tax increase would protect millions of hardworking taxpayers from unnecessary and counterproductive tax hikes.

I am working in my State to get this protection passed, and I would respectfully urge the Members of this committee to do the same here in Washington.

Our mission in New York 4 years ago wasn't just to lead the Nation in cutting taxes. Our mission was to restore freedom. To truly fulfill that mission, we knew that in addition to cutting taxes, we had to eliminate the layers of unnecessary bureaucracy that those taxes created in the first place. We knew we had to significantly reduce the size of the big overbearing government bureaucracy that was intruding into the daily lives of our people.

After all, that big government didn't just disappear when I took office. It was still there, turning out rules and regulations like never before. To date, we have reduced the size of the government by almost 20,000 positions. And we have done virtually all of that through creative measures like early retirement and transfers without large layoffs.

We streamlined or abolished unnecessary and ineffective programs. In fact, in 1995, we abolished an entire government agency, the Department of Energy, which was created during the 1970's to deal with the gasoline crisis, but still existed in 1995. And in doing so, we proudly broke the old rule of government, that once a program or an agency is created, it can never be abolished.

In addition to that, we have sent a strong message to every bureaucrat and every agency of government that the days of harassing employers for the heck of it are over. We have eliminated or revised thousands of regulations imposed by the previous administration saving our people and businesses billions of dollars. We have reduced workers' compensation costs by 38 percent, privatized State-owned properties that government had no business owning in the first place, like bakeries, golf courses, and hotels. We are in the process of making Stewart Airport in the Hudson Valley the first commercial airport in the Nation to be privatized.

And as for that $5 billion deficit I mentioned before, the one I inherited, by returning economic power to the people through tax cuts and fiscal restraint, we have created a stronger economy that has allowed us to eliminate the deficit and replace it with four straight budget surpluses. The latest surplus ending our fiscal year April 1 being $1.8 billion.

I am urging our legislature to preserve that surplus and the ability to cut taxes even more in the future by keeping our budget growth this coming year to the inflation rate.

There is one other important point to make about New York's tax cutting. We have done all of this without inhibiting the ability of one single State agency to provide their important public services. And, in fact, we are operating more efficiently and more effectively than ever before.

It is also important to note that as we have limited New York State's government, we haven't shifted the burden of our services or taxation to localities. It is not just that we ended big government in New York, we have replaced it with smarter government. As you pursue your tax cut agenda at the Federal level, I would urge you to have the same consideration for the States as we at the State level have had for the localities in New York.

Let me end with what I hope is a word of encouragement. There has been a wave of newspaper articles recently citing polls which suggest Americans don't want a tax cut. It has been said that the hunger for a tax cut doesn't really exist because our economy is healthy and people are doing well for themselves financially.

But it has also been said that freedom is fragile and must be protected. To sacrifice it, even as a temporary measure, is to betray it. As Republicans, I believe we must never submit to the notion that the preservation of freedom is a part-time endeavor that can be pursued or abandoned based on the last Gallup poll.

Ronald Reagan was right when he said that the Federal Government is taking too much tax money from the people, too much authority from the States, and too much liberty with the Constitution. And we are right to stand by our principles of smaller government, lower taxes, and more freedom.

We are right to insist on policies that reward hard work and empower the individual spirit that fuels our national greatness and keeps our economy strong. We must stand by our convictions and do what is right for America, for Americans, and for the preservation of freedom. It is what we have done in New York.

And to paraphrase Frank Sinatra, if you can cut taxes in New York and cut them by more than any other State, you can cut taxes anywhere, even in Washington.

And that is precisely what Washington should commit itself to doing, following the lead of the States, cut taxes and strengthen the freedom that makes America thrive.

Thank you, Mr. Chairman. And I would be happy to respond to any questions.

[The prepared statement of Governor Pataki follows:]

Governor George E. Pataki's Prepared Remarks
House Committee on Government Reform
Washington, D.C.
April 15, 1999

INTRODUCTION

Mr. Chairman, distinguished members of the committee ... it is my great honor and privilege to appear before you today.

I'm particularly pleased to have the opportunity today to address the issue of cutting taxes. For me and for the many Republican governors across this great country, who have done so much good work in this area – Governor Bush, Governor Engler, Governor Whitman, Governor Huckabee, Governor Gilmore, and many others -- it's more than just an issue of economics. For us, cutting taxes is a matter of fulfilling government's fundamental obligation to the people.

It all comes down to one simple question: whose money is it anyway?

In state capitols across our country, Republican governors are declaring without hesitation that the people's hard-fought earnings belong to the PEOPLE and not the government.

I'm proud to be able to tell you that in no state has this basic fact of life been declared more clearly and more emphatically than in New York.

I know that may come as a shock to you, given New York's history and particularly given its reputation under my predecessor, but it's true. In the four years since I took office, New York has cut taxes more than any other state. We've cut taxes 36 times, returning $19 billion to the taxpayers so far. When all the tax cuts on the books take full effect, that number will grow to over $52 billion.

Our tax cutting has sparked a new direction in New York. We were once a state in crisis. Now, our largest business organization calls New York "The Comeback State."

I mean, New York has gotten so much better that even the First Lady is thinking of moving there.

But perhaps there is no greater evidence of the profound turnaround in New York than the fact that the Governor of the place that once led the nation in raising taxes is here today talking to Congress about how to cut taxes. As they used to say in Brooklyn, who woulda thunk it.

* * * * *

Before I talk more specifically about what we've done with taxes in New York, I want to address the broader issue of freedom, because I don't believe you can separate the two.

If ever there were two things that had an inverse relationship, it's taxes and freedom. The more you have of one, it is necessarily so that you must have less of the other.

The more money a person has seized from them by their government, the less freedom that person has to do what he or she wants with that money.

It could not be any simpler.

Now, many Americans have come to accept taxation as a "a necessary evil." They accept the fact that they have to surrender some of their earnings -- and consequently, a degree of their financial freedom -- to sustain their government.

The point I'd like to make today is that excessive taxation does more than infringe on people's financial freedom. It drives up spending, and creates a bigger, more intrusive government that inevitably infringes on other freedoms as well.

HIGH TAXES DRIVE BIG SPENDING, BIG GOVERNMENT, LESS FREEDOM

By nature, government has an insatiable appetite – an inherent desire to grow. When politicians raise taxes beyond what is necessary to fulfill government's legitimate function, they feed that growth and produce, not just a bigger government, but a costlier government that becomes a destructive force in

people's lives.

It created a destructive cycle of high taxes, perpetuating more bureaucracy and more spending — which in turn perpetuated more taxes and less economic freedom for the people who pay those taxes.

But the cycle didn't end there. Excess bureaucracy created by over-taxation produced – not just more spending and further encroachments on people's economic freedom – but new encroachments on other freedoms.

Because bureaucrats without a legitimate function have to justify their existence by creating an ostensible function.

In New York, bureaucrats justified their existence by generating scores of rules and regulations — and government would use those regulations to assert itself over the people in every aspect of their daily lives.

Most of the regulations, however, were aimed at businesses, putting the men and women who create jobs under the close supervision of a government that sought to dictate their every move.

So what you had in New York was an endless cycle of high taxes leading to big bureaucracies and more regulations, which led to higher taxes and bigger bureaucracies and even more regulations.

This went on for more than a decade and the results were devastating.

THE BLEAK PICTURE OF NEW YORK IN 1994

Let me just give you a picture of New York in 1994 — and bear with me because, as dismal as it seems, this story does have a happy ending.

When I took office in January of 1995, New York was in crisis. The state government was too big, too bossy, and too expensive. It faced a budget deficit that totaled a record $5 billion — a deficit larger than the total budgets of 31 other states. The promise of tax relief had turned into a cruel hoax. Our welfare rolls

were bursting, and jobs were on the run.

The biggest taxes -- income taxes, property taxes and school taxes -- were all rising every year at an alarming rate. But there were other taxes as well: The sales tax. The estate tax. Hidden taxes on goods and services. And scores of taxes that were imposed on businesses and paid by consumers.

All of these taxes served one purpose and one purpose only: To drive up spending and feed a government that was out of touch and out of control.

And that destructive cycle -- of taxes, more bureaucracy, more spending, more taxes and less freedom -- was in full throttle.

As government got more, families got less.

As bureaucracies thrived, businesses suffered.

Taxes were literally destroying the greatest state in America.

WHAT WE'VE DONE TO CUT TAXES AND RESTORE FREEDOM

Together with New York's Legislature, we confronted that crisis. From our first day, we held to a fundamental covenant that says: at all times and without exception, respect the people and let them lead the way toward real progress.

And in a state where the guiding principle is respect for the people, big government and big government taxation simply does not compute. That's why in New York we have embarked on the most ambitious campaign of tax cutting in the state's history.

It's working. In fact, our philosophy is working so well that it has created a new challenge for us. In that first year, 1995, we had to manage crisis. In 1999, our challenge in New York is to manage prosperity.

Today, taxes aren't going up every year, as they had been; they're going down, by

record amounts. Private-sector jobs aren't going down, as they had been; they are going up, and jobs are now at their highest level ever.

That economic revitalization has been the key to solving one of New York's most serious problems. When I took office, one out of every 11 New Yorkers was on welfare; in New York City, the figure was one in seven.

But today, welfare rolls are shrinking every day, as people are finding the freedom that comes with work. Welfare rolls are down by nearly 653,000, and have fallen below the 1 million mark for the first time since December of 1967.

Families are buying new homes and refinancing their old ones, which says they're planning to stay in New York and build their future here.

It's hard to think of a tax we haven't cut.

We began by cutting income taxes. Today the vast majority of New Yorkers pay 25-percent less in income taxes today than they did in 1994.

We're cutting income taxes, business taxes and school property taxes. Taxes are being cut for small business people, family farmers, and senior citizens ... working families and retired couples.

We're cutting taxes on entrepreneurs trying to start businesses, businesses trying to grow jobs and people trying to find work.

We're cutting taxes for families who are both buying clothes for their children and saving for their college education.

Across the board, and in every conceivable category, taxes are falling ... in ways some thought were impossible.

When we first proposed cutting income taxes 25 percent, there were some who swore we could never actually do it. But we did, and it's saving New Yorkers $5 billion every year and helping to revitalize our economy.

There was once a time when New York was one of the only states that imposed its own tax on estates. But this year, New York's tax on death finally dies, along with the gift tax.

Once upon a time, we not only had one of the highest corporate income tax rates in the nation, but we had a 15 percent surcharge on top of that. We got rid of the surcharge, and this year the corporate income tax rate starts coming down too. When all is said and done, New York's corporate tax rate will be at its lowest level since 1970.

There's more. We've cut the Corporation Franchise Tax... the Gross Receipts Tax... the Real Property Transfer Tax ... the tax on motor fuel... the Container Tax... and the tax on beer.

We've cut bank taxes, insurance taxes and the Petroleum Business Tax.

And we cut the tax that had the dubious honor of being named after my predecessor: The "Cuomo tax." It was a transfer tax of 10 percent on all real estate transactions over $1 million -- a true job killer that was wreaking havoc on New York's real estate investment industry.

When Mario Cuomo signed it into law, he called it the "perfect tax."

As things turned out he was half right: It was the perfect tax for New Jersey, Connecticut , Georgia, and North Carolina. But it was a disaster for New York.

And in 1997, we did something unprecedented. We signed a law -- called the STAR Program -- that cuts school property taxes for every homeowner in New York for the first in New York State history.

This truly is remarkable because in New York, the state doesn't even levy school taxes. The localities do.

And so, essentially the state is cutting taxes that we don't even impose -- then reimbursing local governments for the lost revenue. And the reason we can afford to do that is because we've reduced the size and cost of government so

dramatically.

STAR is cutting school taxes by 27 percent on average. Seniors will see a 45 percent cut. And in 11 of New York's 62 counties, the average senior citizen will pay no school taxes at all.

In 1996, we not only led the nation in cutting taxes, we cut taxes by more than the other 49 states combined.

And in 1997 we cut taxes more than Texas, California and Illinois combined.

New York's Public Policy Institute, a pro-growth think tank, calculated all our tax cuts and then considered what they would mean on a federal level. They said that if equivalent tax cuts were done nationally, Americans would save well over $300 billion.

We have had great progress in New York, but there is more work to do. This year, I've proposed another $1 billion in tax cuts, including a $600 million income tax cut that will raise the threshold at which the maximum state tax rate applies, and it doubles the deduction for dependent children. Another 5 million taxpayers, including tens of thousands of small businesses, will see major savings.

Bad tax policy goes beyond bad taxes. There is the bureaucratic mindset perpetuated by these taxes. This year, I have sent the Legislature a bill that will remove one of the great absurdities from the state's tax code.

For years, hundreds of thousands of New Yorkers have had to file state income tax returns every year even though both they and the state know they will owe no income tax. It takes two minutes to figure it out.

But state law makes them file anyway. That's a waste of taxpayer's time, and a waste of taxpayers' money, because guess whose dollars go to pay for the processing of those useless tax returns?

If there was ever a tribute to twisted bureaucratic logic, this is it. By raising the taxable income needed to file a state return to match the state's standard

deduction, we can wipe this dumb rule off the books for good. And we'll help 500,000 New Yorkers, mostly seniors, by relieving them of paperwork they never should have had to deal with in the first place.

* * * * *

The states have proven that cutting taxes works. But putting tax cuts on the books is only one part of the winning formula. New York was once run by those who were quick to approve tax cuts, and then delay them, and then totally forget about them and finally turn around and RAISE taxes.

The tax-cut movement cannot be allowed to become a blip on the screen of our state's or our nation's history. The act of raising taxes is a destructive act and should therefore be a difficult act.

Last week, I joined with Congressman Joe Barton of Texas in calling for constitutional amendments that would require super-majority approval for any tax increases. At the state and federal levels, requiring a two-thirds vote for any tax increase would protect millions of hardworking taxpayers from unnecessary and counterproductive tax hikes.

I'm working in my state to get this protection passed, and I would respectfully urge the members of this committee to do the same here in Washington.

WE DIDN'T JUST CUT TAXES, WE CUT GOVERNMENT AND MORE

Our mission in New York four years ago wasn't to lead the nation in cutting taxes. Our mission was to restore freedom.

To truly fulfill that mission, we knew that -- in addition to cutting taxes -- we had to eliminate the layers of unnecessary bureaucracy that those taxes created in the first place.

We knew we had to significantly reduce the size of the big, overbearing government bureaucracy that was intruding into the daily lives of our people.

After all, that big government didn't just disappear when I took office. It was still there, turning out rules and regulations like never before.

To date, we've reduced the size of government by approximately 20,000 positions – and we've done virtually all of that through creative measures like early retirement and transfers, and without huge layoffs.

We've streamlined or abolished unnecessary and ineffective programs. In fact, in 1995 we abolished an entire government agency — the Department of Energy — which was created during the 1970s to deal with the energy crisis.

And in doing so, we proudly broke the old rule of government: that once a program or agency is created it can never be abolished.

In addition to that, we've sent a strong message to every bureaucrat in every agency of government that the days of harassing employers for leisure are over.

We've eliminated thousands of regulations imposed by the previous administration — saving our people and businesses billions of dollars.

We've reduced workers compensation costs by 38 percent.

We've privatized state-owned properties that government had no business owning in the first place -- things like bakeries, golf courses, and hotels. We're in the process of making Stewart Airport in the Hudson Valley the first commercial airport in the nation to be privatized.

As for that $5-billion deficit I mentioned before -- the one I inherited ... By returning economic power to the people through tax cuts and fiscal restraint, we've created a strong economy that has allowed us to eliminate that deficit and replace it with four straight budget surpluses. The latest surplus totaled $1.8 billion.

And I'm urging our Legislature to preserve that surplus, and the ability to cut taxes in the future, by keeping our budget growth this coming year to the inflation rate.

There's one other important point to make about New York State's tax cutting. We have done all this without inhibiting the ability of one single state agency to provide an important public service. And in fact, we are operating more efficiently and effectively than ever before.

It's also important to note that as we have limited New York's State government, we have not shifted the burden of services or taxation to localities.

It's not just that we have ended big government in New York ... we've replaced it with smarter government.

As you pursue your tax-cut agenda at the federal level, I would urge you to have the same consideration for the states as we at the state level have had for localities in New York.

CONCLUSION

Let me end with what I hope is a word of encouragement. There's been a wave of newspaper articles recently citing polls which suggest Americans don't want a tax cut.

It has been said that the hunger for a tax cut doesn't exist because our economy is healthy and people are doing well for themselves financially. But it has also been said that freedom is fragile and must be protected. To sacrifice it, even as a temporary measure, is to betray it.

As Republicans, we must never submit to the notion that the preservation of freedom is a part-time endeavor that can be pursued and abandoned based on the last Gallup poll.

Ronald Reagan was right when he said that the federal government has taken too much tax money from the people, too much authority from the states and too much liberty with the Constitution.

And we are right to stand by our principles of smaller government, lower taxes and more freedom.

We are right to insist on policies that reward hard work and empower the individual spirit that fuels our national greatness and keeps our economy strong.

We must stand by our convictions and do what's right for America, for Americans, and for the preservation of freedom.

We must pledge allegiance to our principles.

This is what we have done in New York.

To paraphrase Frank Sinatra – if you can cut taxes in New York, and cut them more than any other state, you can cut taxes anywhere.

Even Washington.

And that is precisely what Washington should commit itself to doing – following the lead of the states, by cutting taxes and strengthening the freedom that makes America thrive.

Thank you, and I'd be glad to take any questions.

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Mr. BURTON. Well, that is a very, very impressive record, Governor. And I would just like to start off by asking the question—when Ronald Reagan started cutting taxes in the early 1980's, I remember some of the pundits were saying that is going to create a bigger deficit in the treasury, because the tax cuts are going to take money away from the treasury. And I remember that after the tax cuts, the next 3 or 4 years we went from $500 billion in tax revenues to $1.3 trillion.

And you might comment, if you would, on your State's reaction to your tax cuts as far as moneys coming into the treasury. You touched on it briefly in your opening remarks, but I think it is real important to emphasize this, because we still have the mistaken feeling in many parts of the Congress that if you cut taxes, you reduce the money coming into the treasury. Can you explain how that works out?

Governor PATAKI. Yes. Chairman Burton, I think that is a very important point. And I am pleased you made it. And let me just tell you our experience in New York. We were in a downward spiral. We would raise taxes in the hopes that it would create more revenue to feed more government programs that were necessary, because the private economy was shrinking.

In the early part of the 1990's, New York State lost over 400,000 private-sector jobs. So we weren't seeing the revenue growth that you would anticipate, because higher taxes were killing the economic goose that laid the golden egg in reducing the revenues that flow into New York State.

By cutting taxes, we not only have given money back to the people, to the consumer, to the homeowner, to the small business person, we have encouraged them to expand their economic activity. And over the course of the 4 years since January 1995, we have seen more than 450,000 more private-sector jobs in New York State. Our tax revenues are up. And our tax revenues are up because the rates are down. And the businesses feel they can invest and create the jobs and opportunity of the future.

Let me just give you one more statistic. In 1994, we had 73 corporations decide to locate or expand economic activity in New York State. Last year, we had 1,024, 14 times as many. And each one of those decisions to locate or expand a facility in New York means investment in dollars, means hiring of people who will pay taxes and become contributing New Yorkers instead of depending on government for a handout.

So it has been—we are now in a positive spiral. As we lower taxes, we get more jobs, more economic activity, and more revenue to provide and meet the services that the people of the State legitimately have a right to expect.

And everybody here in Washington is talking about how the economy has grown and done so well, we shouldn't just be looking backward and saying we have done well. Let us look forward, let us see what we can do to keep the economic expansion going, to keep creating more jobs and opportunity for Americans all across this country. Cutting taxes will help us to keep that economic expansion going as we go forward.

Mr. BURTON. You mentioned that if the tax policies that you implemented in New York were adopted nationwide that the tax-

payers across this country would realize or benefit to the tune of about $300 billion more in their pockets.

Do you believe that if we had a substantial tax cut right now in Washington for all the people of this country and across America that the amount of tax revenues coming into the treasury would be increased, as it was in New York, and do you believe the economy would grow dramatically?

Governor PATAKI. There is no question in my mind that if we cut taxes in Washington, we will encourage economic expansion, continued economic expansion across the country, create more jobs, create higher incomes, and ultimately, because of that, generate more revenue.

I remember the debate when the capital gains tax cut was initiated. Now how can government afford to lose the revenue of lowering the capital gains rate? Lowering the capital gains rate has increased government revenue. It has expanded economic activity and, in my view, helped create the budget surplus that you now have here in Washington. And intelligent tax cuts will do the same thing for the country. It will expand economic activity.

Mr. BURTON. You mentioned cutting the capital gains tax and how that has helped economic growth and expansion in America. What kind of tax cuts would you see that would be beneficial for the United States right now? Additional cuts in capital gains or income taxes across the board or what?

Governor PATAKI. I would do the gamut. What we did in New York is we initially focused on the income tax because that was one of the areas where we were so disproportionately out of line with our surrounding States and the rest of the country, but we focused on doing it across the board.

And I would do the same thing here. I would lower the capital gains rate. I would provide greater exemptions from the estate taxes so that family farmers and small business owners could pass on their business to the next generation. I would certainly look across the board to lower the income tax burden.

I think we should have lower marginal rates. We should have a flatter, fairer, simpler income tax system. So certainly lowering the income taxes across the board, lowering the capital gains tax, raising the exemption on the estate taxes, these are all things I think would not only be fair and appropriate given the fact that government has a surplus, give the money back to the people who have generated that surplus, but also expand economic activity and help to keep the economic expansion going forward.

Mr. BURTON. Are you sure you don't want to run for king? I like what you are saying.

Mr. Towns, do you have any questions?

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me begin by saying, Governor, I think that the reduction in government you have done, I think that I support that totally. And I think that you have done a magnificent job in that regard. Of course, I also think that you have done some things that some of the others have not done that have come before this committee and talked about in terms of cutting.

I think that the fact that you have done some targeting, I think that to me is a very, very important. You put money in the budget

for advantage schools. I think these are the kinds of things that doesn't readily come out, you know. And I think some of the things that some have come before us and have indicated what they have done—I mean, I have a lot of problems.

But in your case, you know, regardless of the family composition, one Governor came here and basically said, you know, regardless how many children you have, you are not going to get any more money. And I think that those kinds of things when you start talking about cutting the budget and you do those kinds of things, I really have a lot of problems. And I appreciate the fact that in New York you have not done that.

However, there is one area that we are cutting that I do have problems with in New York, and that is the area to the health care. I am very concerned about that, because you have standards that must be met. And I am wondering you know, Governor, if we continue to cut, would we still be able to uphold those standards. I mean, that is a real concern. I would like to hear your comments on that.

Governor PATAKI. Yes, Congressman Towns, thank you again for your comments. I appreciate it. And there are areas where, in my view, government has an appropriate role and has to be involved. Education, certainly at the State level, is critical and also in health care. The problems we have in New York State, and it is a very real problem, is that our Medicare—Medicaid expenditures are off the charts in relationship to the rest of the country.

We are spending, as an example, almost three times as much per recipient on Medicaid in New York State as the State of California. And this is not just the burden on the State Government and the Federal Government, it is also a burden on the local government, because in New York State, the local government matches the State contribution for Medicaid.

One of the reasons that the city of New York now has a budget surplus is we have taken steps of cost containment to try to keep the growth of Medicaid costs below what they had been in the past. We had proposed again certain cost containment measures in Medicaid, but I think these are appropriate. They would still result in New York State's per capita, per person, expenditure on Medicaid being much higher than any other States.

And I believe they are being done in an intelligent way that recognizes the impact it has on the health care system, but it is not just Medicaid. If you look at what we did on the budget, 2 years ago, we passed the Health Care Reform Act in New York, that generates almost $2 billion a year in public good financing for things like hospitals to reimburse them for bad debt and charity care where they don't get paid.

It helps fund graduate and medical education at the teaching hospitals in New York State. And it provides the ability for us to have, I think, the finest health insurance program for children in America. Our Child Health Plus program—and again Congress took a tremendous step in passing the legislation providing assistance allowing the States to create our own children's health insurance program—our program is enrolling more than 10,000 children a month. And we will provide health care at no cost to every single child in New York State and in a family of four with an income

of up to $35,000. So, yes, we have to continue to look to see how we can prevent the increase in costs of Medicaid from impacting negatively on the city's budget, on the State's budget, and on our economic climate.

But we will do it in a way that recognizes the importance of health care including health care to the uninsured as we are doing with the children.

And, Congressman, I can remember when we were at the hospital in your district, that hospital for a decade had been largely ignored. We are now putting the capital in to restructure that hospital, build a new facility, put up a new community-based center for that hospital. We are going to continue to stand with you, stand with those hospitals and make sure we have the best health care in America.

Mr. TOWNS. I want to applaud you. They have started the work, Governor.

Governor PATAKI. Good.

Mr. TOWNS. The hole is in the ground and the foundation is there. And to say to you one other thing before I close, that I also want to salute you on the advantage schools. I think that is a very creative way to go in terms of dealing with some of our educational problems that those communities that need additional support, that you putting money into those areas where need it desperately. I want to salute you for that, that makes a lot of sense.

Governor PATAKI. Thank you, Congressman. The advantage schools are a proposal that we have to allow communities to have schools that stay open to 7 p.m., so that a working parent or a student who simply wants to remain in the classroom or get additional educational help can do it. And we have money in the budget to fund those this year. And I hope that the legislature allows us to continue that.

Just one other point. While we have cut taxes the way we have in New York State by reducing the bureaucratic cost, by reducing the State government by 20,000 people, every year we have put more money into education than before. And in each of the last 2 years, we have had the largest increase in State aid to local schools in the history of New York State.

So it is not as though we are reducing across the board, as the Congressman pointed out, we are cutting taxes across the board, but we are investing more on education, more on the environment, because we are operating the government in a smarter, more efficient way.

Mr. TOWNS. Thank you, Mr. Chairman.

Mr. BURTON. Thank you, Congressman Towns.

Mr. McHugh.

Mr. MCHUGH. Governor, as usual you are one step ahead of me. I wanted to have you discuss a bit further your very comprehensive approach to education assistance. You have made comment in your testimony about the STAR Program, which is the real property tax relief initiative that you have modeled, and that, as I understand, great States like New Jersey, with great Governors like Governor Whitman, are beginning to following.

And, indeed, she told us yesterday she will be introducing a billion dollars tax relief program that is modeled after the initiatives

that you have put together. You laid that out very clearly as to the fact that that is not a State levy, the real property tax to support education comes from the local districts. Here you have an incredibly unique situation where the State is going in and relieving in significant portions the taxpayers of those burdens by providing that kind of effort. And I wanted to compliment you on that, No. 1.

No. 2, I wanted to compliment you on the fact that it is not a program that pits, as so often happens in this town, rich against poor. This is an initiative that you have accelerated and have made available to taxpayers in all income brackets. It has, as it should, benefited particularly those senior citizens who have difficulty staying in their homes.

But it is not at the cost of what the State has done in support of local education. You didn't use this—and I am saying this to your credit—you did not use it as a means by which you can make the State look good at the locality's expense, but you just answered that for the chairman. So obviously we don't need to revisit that again.

I just wanted to say, again, to Chairman Burton how much I appreciate his efforts to showcase really innovative leadership as we have seen here this morning. And you, Governor, and our panelists yesterday. As I look over the things that you have done—and as someone who was there at the time that you were when you were a member of the State Assembly and I was a member of the State Senate and eventually you went on to the State Senate and I came here—it is remarkable the target-rich environment you had for tax cuts, the broad-based way in which you approached this.

I would just suggest, Mr. Chairman, there is a great deal that those of us in this town can learn with respect to approaching taxes on a broader rather than a more narrow basis by understanding that true economic performance really generates where there is a wide range of reasonable initiatives that, taken together, have done some remarkable things.

So as a New Yorker, not just as a Member of the House, Governor, I wanted to thank you for all that you have done and allowing us to actually feel good about ourselves again when we say we are from the Empire State. So with that, I would yield back to the Chairman.

Mr. BURTON. Thank you, Mr. McHugh.

Ms. Schakowsky.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

I wanted to begin just by saying that it is not just Republicans but also Democrats who celebrate the fact that we can alleviate some of the tax burden. And I wanted to reiterate some of the opening comments that ranking Democrat Henry Waxman made about this issue when he said that the average tax rate for a family earning the median income is at its lowest rate today since 1965, 34 years—over the last 34 years.

And that certainly, in part, some of the strength of the economy in our States is in fact—some of the credit at least has to go to the strong economic growth under President Clinton. And we have the longest peacetime expansion in history as Representative Waxman pointed out.

And as long as we are showcasing, it is a disappointment to me that we are not showcasing some of the Democratic Governors who also have been engaged in tax cutting. In fact, there are 10 of those, none of which were asked to appear at this committee hearing.

And at the risk of sounding a bit like a Grinch, I just want to ask a couple of questions. There is a couple of issues that you might be able to point to, I certainly don't want to take away from the obvious creative programs and policies that you have enacted. But I do want to ask you a bit about the—let me just list them, the State debt, which I understand has increased, these are the numbers that I have, and feel free, of course, to dispute them, from $27 billion to $41 billion since you have been Governor; also that Moody's Credit Rating is for your general obligation bonds is tied for the lowest in the Nation; and the S&P rating is the second to the last; that your proposed budget for 2000 includes a $598 million cut in State public school and support for State public schools.

And I wondered if that would result, in fact, in some local tax increases. We already mentioned the $1.4 billion cut in health care cuts, $80 million from early childhood education. And I also wanted to ask you, if—I assure you are not here today saying that less money should go to New York from the Federal Government. And obviously if we are going to be cutting taxes, or maybe you are, that some of that might result in fewer dollars going to help States. And, finally, I just want to make a comment, both the chairman and you had mentioned President Reagan. And, in fact, as I recall, the results, I believe, of some of the major tax cuts that occurred were, in fact, the greatest budget deficits that we had had, and that—finally that we are out of that hole and into surplus. And I think all of us are certainly happy about achieving that.

So I just wanted to ask you some questions about that.

Governor PATAKI. Sure. I am pleased you did. And I actually took some notes, so I will refer to them specifically.

First, with respect to President Reagan's tax cuts and the economic expansion. The economic expansion started in 1982, and, I think, in significant part because of the Reagan tax cuts. Since that time, we have only had 5 months where the economy hasn't grown. So I don't think it is simply the Clinton administration's expansion, it started with the Reagan tax cuts in 1982.

But with respect to the deficits, there are two sides to every equation; there is spending and revenue. President Reagan did the right thing on tax cuts. The Democratic Congress did not do the right thing on spending. You cannot continue to have spending increases when you don't have the revenue, and I think the fact that we now have a balanced budget is a tribute to the fact that Congress for the last 4 years has had caps on spending growth that they have implemented. It is not just revenue; it is spending. And I think that is important to recognize.

Second, with respect to the credit rating, we have one of lowest credit ratings in America. It has been upgraded since I have been Governor for the first time in over a decade. It was far lower under the prior administration with its higher taxes. And we are confident, that as we go forward, that the fiscal condition of the State continues to improve.

As I indicated, we started with a $5 billion projected deficit my first year. We turned that into a $400 million surplus that became an $800 million surplus the following year, that became a $1.2 billion surplus the year after that.

And we finished our fiscal year this April 1 with a $1.8 billion surplus. So we have had our credit rating upgraded. And I am confident, if the legislature doesn't spend the surplus, that we can continue to see an improvement in our State's fiscal condition.

With respect to debt, again, we inherited a State with the highest debt in America. The number $27 billion to $41 billion is not accurate. In fact, we have reduced significantly the growth in debt—and a lot of that growth in debt was programs, 5-year capital programs entered into by the prior administration.

And in my proposed budget for the first time, I think, in 20 years we have a 5-year capital program that reduces State debt. It not only expands our investment in infrastructure to a $1.5 billion highway program a year, as an example, but at the end of that 5-year capital program, we will have less debt for the State than we do this year.

With respect to school aid, not only have we not cut school aid every single year I have been in office we have increased school aid. And in 1997, we had the largest increase ever in school aid; and in 1998, we increased school aid to local districts by over $800 million, the largest increase ever.

And as Congresswoman Maloney probably knows, New York City School Districts in the past year had a more than $250 million surplus. Last year they got $320 million more additional aid from the State of New York than they did the year before. In my proposed budget, we proposed increasing school aid by almost $300 million. I think the exact number is $297 million increase in school aid.

Again, more than the rate of inflation. Again, a significant increase. And that doesn't include what I had proposed in this year's budget which is almost $1 billion in cash from the State to help local school districts upgrade or build new educational facilities.

Again, we are investing more dollars in education and a higher percentage of the State revenue in education than ever before. So this State is in far better fiscal condition because of the tax cuts, and the fact that the tax cuts have been coupled with spending restraint. That is how you move forward fiscally as a State, and that is what we have done.

Ms. SCHAKOWSKY. Thank you. Thank you.

Mr. BURTON. Thank you, Ms. Schakowsky.

Let me just say, before I yield to Mr. Shays, that every time we have a panel or a group of panelists to appear, the minority is entitled to one or two people. We did not receive a request to have any Governors from the Democrat side; however, any of you that would like to make a request in the future when we have panels, we would love to have your input, so I just thought I would advise you of that.

Mr. TOWNS. I agree with Governor Pataki being here.

Mr. BURTON. You agree with that.

Mr. TOWNS. I agree with that.

Mr. BURTON. Mr. Shays.

Mr. SHAYS. Governor Pataki, I think you are very fortunate to have Mr. Towns in your State, he has been a wonderful Member. And I love the fact that he appreciates what you have been doing. I would like to give my time—I would just like to defer my time and take the next round. I think Mr. Mica and Mrs. Chenoweth have questions.

Mr. MICA. I have a quick question. Thank you for yielding. I also agree with your comments on Mr. Towns. We have learned a lot from Mr. Towns. I came in here and served under his tutelage.

You don't mean me, Governor. I am from Binghamton, NY, born and raised there till I was 13. My family were all immigrants from the Old World, came to Binghamton for economic opportunity and jobs basically the turn of the century. And we actually moved away from Binghamton when I was 13, primarily for economic reasons, some of the places where my family worked closed down, taxes got higher.

Fortunately for me—they moved—and my brother, they moved to Florida, where we both were successful as Members of Congress, me semisuccessful; he was.

I tell you that story, because I go back to Binghamton. In fact, I probably go up there to visit an aunt, and I get depressed sometimes when I go back to Binghamton. I think you have been sort of a ray of hope, because things have started to change in New York. Because of high taxes and poor economic opportunity in some areas, people have left or they left on welfare or some government program or government housing that Mr. Lazio knows so well.

My question is this, sir, when I go back to Binghamton, I still see a depressed community. I know we have done some things to give people economic opportunities and jobs and take them off welfare. But my question is, what is New York doing to help places like Binghamton, and what can we from the Federal level do to help situations where you have less economic opportunity like that area and others I have seen?

Governor PATAKI. Well, Congressman, first I don't know when the last time was you were back in Binghamton, I hope it wasn't recently, because things are getting better. In fact, Broome County was cited by one of the national economic magazines as one of the hottest economic areas in the country right now.

Mr. MICA. As I said, you have provided in the last number of years some glimmer of hope.

Governor PATAKI. Congressman, we were dying as a State. And in all seriousness, it was a tragedy, because people like your family, my family too, my grandparents all immigrated to America and came to New York because it was a place of opportunity. My grandparents worked in a factory. The factory moved to New Jersey, and we had massive unemployment in my little city of Peekskill. And it happened in Binghamton; it happened in Vestal. It happened all across the State.

And we are changing that. And I will just give you a couple of more statistics going with the statistics that Congresswoman Schakowsky had spoken about earlier on debt. In 1992, New York State was 50th in America in job creation, 50 of the 50 States. We were last. And it wasn't because we didn't still have immigrants. Congressman Towns' district has people from the Carribean who

are coming to this State and this country because they want to work. And they wanted to be a part of the American dream, but they didn't have the jobs; they didn't have the opportunities.

And we were 50th in the country in creating jobs. Last year, at the end of 1998, we were 20th in America. We created over 453,000 new private sector jobs. And seven of the fast—eight fastest growing counties in 1998 were upstate. We have focused in significant part on the upstate economy, because there were, as you indicated, manufacturing companies, factories. And we were dying as a manufacturing State. And those factories were leaving, not only for the Sun Belt, but also for Pennsylvania. Retailers were leaving for Pennsylvania.

I will just give you one story in Broome County. There is a company in Binghamton. It was started by a family two generations ago out of the back of a pickup truck, it has now grown to over 1,000 jobs. They were going to Pennsylvania because their taxes were too high, the workers compensation rates were too high, and the regulatory burdens were unfair in New York. They just located a major new multimillion dollar facility outside of Binghamton in Broome County, adding hundreds of new jobs. And they are one of many, many companies that are doing it.

We have to do more. There is no question that we simply can't look back and say look what a great job we have done in the southern tier, that Binghamton is on the Pennsylvania border. Starting December 1, we have repealed the State's sales tax on clothing and footwear up to $110. So you don't have to go across the line to Pennsylvania to go shopping for your kids to go back to school, you will be able to do it in downtown Binghamton.

Mr. MICA. The second part of my question is what we can we do?

Governor PATAKI. What you have done, continue to do, devolve power from Washington to the States. You did it with welfare. We would like to see more control over Medicaid. Cut taxes, Congressman, cut taxes here in Washington. It will allow companies that are thinking not just about moving from New York to Pennsylvania, but maybe a company thinking of going to Mexico, will say that we are going to stay in New York or we are going to invest in New York, if you lower the Federal tax burden imposed on them.

When we are competing, we are not just competing with other States, we are competing globally. And we want to be able to say that the combined tax burden, New York and Federal, will allow you to compete successfully in any market in the world from New York State. Cut taxes.

Mr. MICA. Thank you. I yield back the balance of my time to Mrs. Chenoweth.

Mr. BURTON. We will have to catch Mrs. Chenoweth in just a moment here. Mr. Cummings, did he leave?

Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman.

I wanted to make a point of coming by and welcoming the Governor from the great State of New York and my colleague Rick Lazio. I wanted to mention, just very briefly, a supply side daycare measure that Sue Kelly, another great New Yorker, and Rick and, actually, Congressman Horn and myself are working on. It is called Kiddie Mac, patterned after Fannie Mae and Freddie Mac that help

revolutionize affordable homeownership. The idea is to do the same thing for daycare, not in greater expenditures, but the important building block of the infrastructure, whether it is family daycare network for maybe a welfare recipient who is going back to work and taking in children in their home to upgrade the quality in the home or to help businesses or small businesses provide the infrastructure. And the interest on it would go back into a loan that would be there to go out for more daycare.

And I know we have had one hearing, and there are some things we need to work out, some questions that Mr. Lazio has raised on it. But I think it is a great idea, and I wanted to give it to your staff. I think it is something that could help New York and help working men and women in our State.

I want to ask really one question on an article that I found somewhat troubling on April 10 in the New York Times that alleged that you or your administration were not working to resolve the dispute between the city and the State on the tobacco settlement. And, as you know, under the settlement, no funds can be distributed to any State before States comprising 80 percent of the money have won approval for plans to distribute the money within each State. And since New York State comprises almost 12.7 percent of the settlement money, New York's failure to reach the agreement could have the effect of stalling or even derailing the entire settlement nationwide.

And it goes on and alleges all other items in it. But basically, based on this article, I just would like to know what are you doing to resolve the allocation dispute or the allocation issues between the city and the State so that New York State and other States and citizens can receive the settlement?

Governor PATAKI. Congresswoman, let me say first that I am shocked that you would suggest that the New York Times would allege something. The New York Times is a newspaper of record, and how could they be alleging something? Occasionally, they are wrong.

Mrs. MALONEY. I heard that.

Governor PATAKI. Occasionally they are wrong, Congresswoman. And in this case, they are. We have a settlement. And first, let me thank Congress for passing the legislation letting the States keep the tobacco money, that is extremely important. And we are very grateful that you are not going to allow the administration to try to take that money from the States. So thank you.

But with respect to the settlement, we have one. It was worked out by the attorney general, it has been approved. The city has sued because they want more. They lost. Judge Crane in Federal court said the city is wrong, that the system is fair. The city is now deciding whether or not to appeal. I hope they don't because it will delay things.

But we have a fair settlement that was negotiated. The Federal court has said it is a fair settlement, the city obviously has the right to continue to challenge it legally. I would hope they won't, we have discussed it.

Mrs. MALONEY. How much is in dispute? I mean how many millions of dollars, what percentage rate is in dispute?

Governor PATAKI. It is hundreds of millions of dollars, and it is not just for the city. If the city thinks it should get more, the counties think—they all think they should get more too. And the counties, from our standpoint—and I think it is an accurate one from the State—the counties and the city are getting more than is appropriate under the settlement. But in the interest of having it resolved, we said OK we will not challenge the allocation formula developed by the attorney general who brought the lawsuit.

The city has challenged it, they lost. I would hope we could convince the city to either settle in a way, and we are willing and we have been talking in settlement negotiations or to withdraw the——

Mrs. MALONEY. The State won in Federal court, and the city is suing where?

Governor PATAKI. The city is now appealing.

Mrs. MALONEY. Appealing that?

Governor PATAKI. Right.

Mrs. MALONEY. Well, also the article went on—thank you for clarifying that to me—and stated or alleged or put forward your plan was only for debt reduction and not for—and debt reduction is important, the debt in New York State has been climbing, has it not? And one of the purposes of the settlement and what we were planning to do in Congress before we agreed that the States should take the leadership on this, was to dedicate dollars for health, for educating teens against smoking, for insurance. And the article again stated that all the money according to your plan was going to be going to debt reduction.

Governor PATAKI. That is not accurate.

Mrs. MALONEY. What is the plan?

Governor PATAKI. First of all, let me say you were talking about how Congress was thinking about trying to mandate that we use it for health or education or something. I think that is completely wrong, because all the States, to a greater or a lessor degree, are already not doing that. And for Congress to say use these moneys for this program, maybe a State already has that program, why are you telling the State to do it again?

And what we are looking to do is to use three quarters of the State's share, which is only half the revenue, the other half is going into the counties and the cities for debt reduction. But also a quarter of it for health-related purposes, and that is $100 million, I think it is $125 million a year for new and expanded programs such as looking at means to deal with the uninsured in New York State.

And we have a task force looking at that. I might point out that the city, the mayor and the head of the council have both suggested not using any of it on health-related things, but using it for school construction. And I think the city should be allowed to make its determination. If they think that is a higher priority for kids than anything else, the State shouldn't be telling them what to do, Federal Government shouldn't be telling them what to do. Let the local elected officials have the authority and the responsibility to make those determinations.

Mr. BURTON. Thank you, Governor. Thank you.

Governor PATAKI. Let me welcome Congressman Meeks. It is good to see you. I am surrounded by New Yorkers here.

Mr. BURTON. I think they love you. I was just about to acknowledge Congressman Meeks being here, we appreciate you're being here. And if you have questions at the end of our questioning, we will be glad to allow you to ask a question or two.

Mr. MEEKS. Thank you, Mr. Chairman.

Mr. BURTON. Mr. Shays.

Mr. SHAYS. Governor, I am struck by the fact if you are a Governor of a big State, you have got to be willing to be a brawler. And it is a tough environment, and I am also struck by the fact that while the Federal Government can make your job easier, you can make our job easier as well. I mean you create more jobs, you have more taxpayers, they are in better income, we get more money into our Federal treasury, and we see more money flowing to Social Security and Medicare. So, you know, we thank you for what you do for the Federal Government by your energized economy.

I am struck as well by the fact that even though the economy has improved, what I see down here with no disrespect to either party there is a tendency to want to spend surpluses. And I need to know how you resist. First, I think it is extraordinary that you reduce taxes 25 percent, obviously with the help of other people, but extraordinary, really extraordinary.

And I want to know how did you resist the absolutely unbelievable pressure there must be to spend more money?

Governor PATAKI. Well, it is difficult, because you did have ongoing pressures to spend more money. And they are legitimate. There is absolutely no area where you couldn't justify spending more; whether it is the environment, education, transportation, any area like that.

Could you do more? Of course you could. But what you have to do is recognize that there is an enormous cost from spending, and that cost is in lost opportunity, lost jobs and we were seeing it in New York State. What we have done is just made it plain in our negotiations with the legislature and in the budgets I have submitted that we are going to control spending, and generally the legislature has gone along.

Last year we had a little bit of a problem. And I ended up vetoing $1.3 billion in spending from the State budget. Otherwise, we wouldn't have had the significant surplus; and we wouldn't have had the restraint in spending. So that if you have to, if necessary, first of all, draw a line and try to encourage restraint, but if necessary, to take the action to actually veto additional spending.

What I propose this year is to keep the State's increase in spending to the rate of inflation. Over the first 4 years, the average rate of inflation was 2.3 percent, the average rate of State funds growth was 2.2 percent. We kept it below inflation, and that is one of the reasons that we have been able to do this.

Mr. SHAYS. I will just make one other comment that doesn't relate quite to the budget, but tremendous concern about air traffic all around the New York metropolitan area. And I am hopeful that when you see two airports, Westchester White Plains and Stewart that you look more favorable on Stewart as the airport to grow and become that fourth regional airport.

Governor PATAKI. Well, Stewart is—I don't know that it will be a fourth regional airport. But we do see that it has tremendous potential for additional growth so that not only will it relieve some of the pressure from the other airports, but it also helps the economic activity and opportunities in the Hudson Valley.

Mr. Chairman, I misspoke earlier when I thanked the House for passing the tobacco legislation. I just received a note that the Senate has and the House is looking at it. I would implore you to do that, give the States the authority to make a determination as to what we think is right, instead of having Washington impose a one-size-fits-all solution to the allocation of those tobacco funds.

Mr. SHAYS. If I have any time——

Mr. BURTON. We will convey that to our colleagues.

Mr. SHAYS. If I have any time, I would like to yield it to Mrs. Chenoweth.

Mrs. CHENOWETH. Thank you, Mr. Shays. Governor, this has truly been an extraordinary report that you have given to us, 27 percent average reduction in taxes for your citizens.

Mr. SHAYS. He is a moderate Republican.

Mrs. CHENOWETH. Is he, Chris? Well see, Governor, I come from all the way across the Nation in Idaho, and I am sitting here amazed.

Governor PATAKI. Well, in fairness to Idaho, we had a lot higher tax burden to cut, it wasn't like we were starting from a low point.

Mrs. CHENOWETH. Yes, you did. The fact that you created, you reported 453,000 new jobs, there are 479,000 people off the welfare roles in New York——

Governor PATAKI. 568,000.

Mrs. CHENOWETH. 568,000.

Governor PATAKI. I am sorry it is over 650,000 fewer, I get these numbers confused. But they are astronomical.

Mrs. CHENOWETH. I got a wrong report. Followup on what Congressman Shays was asking you, the resistance to cutting taxes is overwhelming, we feel that here. I mean we are lobbied constantly by those people who feel their jobs are threatened and, in large part, they are, because we are trying to cut government.

What I see that you have done, not only takes political will, but a personal skill in working with the legislature—in tandem with the legislature to be able to make these tax cuts. And I know those lonely moments when you have to veto spending programs are lonely. But you obviously must have received a lot of cooperation and good will that has been established between your office, yourself, and the legislature, and my hat is off to you in doing that.

And I just hope that we here will be able to resist the resistance, because I find that so many people are comfortable in the taxation bondage, because they don't want to see change. So, Governor, thank you for this marvelous report that you have given to us.

Governor PATAKI. Well, Congresswoman, thank you for those kind comments. And part of it was not just dealing with the legislature, a significant part was taking the case to the people. In 1995 and in 1996, the largest crowds I had were pickets and protesters, talking about how these policies were going to destroy health care, education, result in thousands of layoffs of public employees.

And I had to take the case across the State, and I did, and I continue to do it, as to the positive things that would come from this. And you mentioned people being afraid of losing their jobs if you cut taxes, in New York, people were losing their jobs because we didn't cut taxes. And we had to point that out and go to the floors of the factories and say, we want your factory to grow here, and not in some other State. And if we can cut taxes, we can convince your employers to do that.

So sometimes you have to think outside of just the legislature and outside of those groups that come to the legislature. And if you do that, I think, make the case to the people, there is an overwhelming recognition, I believe, that taxes are still too high, in Washington, in the States, in New York. And when you look at a family of four's budget, the largest single expenditure is in taxes. It is not in housing, it is not for food, it is not for transportation or to send your kid to school, it is in the taxes you pay.

When we make the case, I think the American people say, yes, we have earned the money that has created that surplus, let us give it back to the people.

Mrs. CHENOWETH. Thank you.

Mr. BURTON. Thank you, Congresswoman Chenoweth.

Congressman Ryan.

Mr. RYAN. Thank you. I just have to share with you, Governor. I, too, am just simply astounded at how well you have done to cut taxes in New York, I did not know this. I am from Wisconsin, and we have some relatively high taxes there. We used to say they are not as bad as they have in New York. I don't know if we can say that any longer.

I wanted to ask you, you know, you had 13 different tax cuts that were enacted under your leadership. Have you analyzed the different growth components of these tax cuts, which tax cuts created and incentivized more economic growth among the other ones?

Governor PATAKI. Well, it is 36 tax cuts.

Mr. RYAN. I just have a page of 13, I guess they couldn't fit them all on here.

Governor PATAKI. And some of them were targeted at specific industries, and they worked. As Congressman Lazio pointed out in his introduction, we made the State an Internet tax-free zone. The prior administration, by regulations, imposed the telephone taxes on the Internet. We by administrative ruling, said, no, we are not going to do that. And we repealed those aimed at website designers, new media.

And in lower Manhattan, they now refer to it as Silicon Alley as opposed to Silicon Valley, because so many new media companies have come, more than 100,000 jobs in new media, because of the targeted tax cuts. We also looked at things like the alternate minimum tax that had a negative impact on manufacturing. And I can't—we still, last year, had a very small loss in manufacturing jobs, but 5 years ago, we were hemorrhaging.

We were losing tens of thousands every single year. And I can point to specific plants and companies that have said, because you lowered the alternate minimum tax, we will keep a plant here; or we will invest more. The income tax across the board income tax cuts——

Mr. RYAN. Was that a rate cut?

Governor PATAKI. That was a rate cut. And for the lower income payers, it was significantly more than 25 percent. And at the top rate, it went from like 8.75 to 6.8, something like that, a very dramatic reduction. That has had a huge impact on our ability to keep high-wage earners in New York State and not locate their businesses and move themselves, again not just to the Sun Belt but to New Jersey or Connecticut. So we have over 450,000 more private sector jobs than we did in January 1995.

And in all areas, we are just seeing a greater, greater confidence in the future of the State and a willingness to invest and continue that economic expansion.

Mr. RYAN. So all of the different 36 cuts you did, you thought the marginal cuts, the cuts that gave you a marginal incentive to produce, save, invest, keep more of your own money when you cut income tax rates, when you cut the alternative minimum tax rate, you thought those had the strongest growth?

Governor PATAKI. Cutting rates, the marginal rates was absolutely critical. Lowering that marginal income tax rate is something that Congress should do. With all due respect, I would recommend lowering those rates. Getting rid of the estate's added-on estate tax.

We were losing people to Florida and not just because of the weather, but because they couldn't—I used to say you couldn't—not only you can't afford to live in New York, you can't afford to die in New York. And it was true, because of the estate tax.

By repealing that we are getting entrepreneurs who maybe they are ready to give up a 9 to 5 job, but they still have ideas, they still want to go into the office, to stay in New York. So marginal rates, critical. Some targeted cuts, like our new media-targeted tax cuts have been very important, and the estate tax has been very, very important.

Mr. RYAN. When you pushed the estate tax reform, the marginal rate tax cut reform, did you experience a lot of class warfare type of arguments?

Governor PATAKI. Sure.

Mr. RYAN. Did you experience a lot a demagogues suggesting you were giving tax cuts to the rich and things like that all?

Governor PATAKI. Absolutely.

Mr. RYAN. How did you defeat these arguments?

Governor PATAKI. Absolutely. The argument was exactly that, the counterargument was that well you are talking about a person earning more. The counterargument to that is jobs. What it comes down to is if you are a low-income person and if you were a low-income person in the mid-'90's in New York State, you were the one that was trapped there. You couldn't afford to simply pick up the newspaper and go buy a house in North Carolina or follow an IBM plant to North Carolina. It was the low-income New Yorkers, or the senior citizens, the ones who didn't have the economic ability to move, who were trapped where there were no jobs.

College graduates, engineers, they could follow the jobs. They could go out to California and go down to Florida. But it was all about jobs, because if you taxed that entrepreneur out of the State, he is going to take his company, or she is going to take her com-

pany, and all the jobs with them. And the low-income people are the ones who are left with no opportunity, no jobs, no ability to see their dreams for their children come true. So it was about jobs.

Mr. RYAN. In the face of this evidence, now that this has been resolved, that the rate cuts took place, that jobs did grow, that actually revenues did increase, were those people who were the opponents of these tax cuts on the grounds of getting tax cuts to the rich, are they all new converts now?

Governor PATAKI. No. I wish, Congressman, that I could say that it is true; but it simply doesn't work that way. As you know, too often, if the political rhetoric seems to work, people are inclined to use it. But what we have to do is just point out the facts, and the facts are that tax cuts create jobs, they expand opportunities, they give people more chance for the future, and, particularly, the lowest income are the ones who can't buy a house in the Silicon Valley to follow a company there. We have to have jobs across this country, and lowering taxes allows us to do that.

Mr. RYAN. Thank you for your intellectual fortitude.

Governor PATAKI. Thank you.

Mr. BURTON. Thank you, Congressman Ryan.

Congressman Horn.

Mr. HORN. Thank you very much Mr. Chairman. Governor, you are truly impressive in your record, and the fact that you would have Mr. Lazio sitting beside you is another example of your good decisionmaking. He is a very constructive Member of this body. Yesterday Governor Whitman, who has done very much like you have in this regard and takes on all adversaries with a smile as you have, made this comment that if we were to use the surplus, if it really ends up to be a surplus after what is going on in Yugoslavia, that she expended for Social Security and education.

Now a lot of us believe in that and a lot of us also want to give tax cuts and the one that concerns me the most that we ought to be talking about, and some of us did in the last 4 years. Mr. Neumann and myself and Mr. Nick Smith of Michigan talked about the unfunded liability of the Federal Government which are into the billions over the next 30 to 50 or 70 years.

And we would like to know to what degree do you think we should cut a lot of the National debt over the next 20 years at least. And we could get rid of that debt, which is costing us hundreds of billions of dollars in interest that could be used for other purposes, further tax cuts, further support for some programs. I would just wonder how you would advise us to balance the Social Security, the education, the tax cuts and the retirement of the National debt which we are talking about $5.3 to $5.5 trillion.

Governor PATAKI. That shouldn't take more than 30 seconds to balance the budget, take care of the debt, Social Security, education and all the other needs of the Federal Government.

Mr. HORN. What priorities should we give it?

Governor PATAKI. First of all, I think Congress deserves enormous credit for finally achieving a balanced budget. And we have to make sure that, as we go forward, whether it is new programs, debt reduction or whatever, that that balanced budget continues, it is the right thing for our children, and for the future generations.

Former President Bush made what I thought was a very interesting suggestion with respect to the debt, and that was to allow people on April 15, when they file their tax returns, to have a debt-reduction checkoff, where they could allocate a portion of their taxes, to voluntarily help reduce the Federal debt, I think that is an interesting idea that should be looked at.

Obviously, preserving Social Security is not just critical, it is something that is a matter of faith with the American people. When people have worked all their lives and paid the payroll taxes and paid into it, to tell them that their security in their old age might be in jeopardy is unconscionable. So the highest priority has to be to make sure that Social Security is protected and preserved for future Americans. I believe there is a growing consensus on an allocation. I believe the President proposed 62 percent of the Federal surplus for Social Security, and there is a growing consensus that that percent should be appropriate.

What we have done in New York is both. We are continuing as we go forward to cut taxes, but I have also proposed over that period of time a capital program that will reduce State debt, and in our upcoming State budget I propose a quarter of a billion dollars in cash to begin debt reduction.

So certainly, if you can reduce the unfunded mandates and the debt into the future, it not only allows you to build on the tax cuts to create the economic expansion, but it lowers the cost of government in the future so you can do it again.

So Social Security has got to be the priority. The budget should remain balanced. I will absolutely look to continue cutting taxes so that we will continue to see economic expansion in this country, and cutting taxes would help to do that; and beyond that, whether it is additional funds for defense, which are obviously necessary, or additional support for education, which is desirable and we would love to see in the State, we would be very pleased.

Mr. HORN. Thank you. Keep up the good work.

Governor PATAKI. Thank you.

Mr. BURTON. Thank you, Mr. Horn.

Mrs. Biggert.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Let me add my congratulations to what you have been able to accomplish in New York, Governor Pataki. I am sorry I missed Mr. Lazio's opening statement from all the praise that he has garnered here, I guess I missed something that was spectacular. I will have to read it.

I am from the State of Illinois and have been in the Illinois State Legislature and was active in our school reform in trying to work out how we were going to fund our schools. We have a State constitution to provide the preponderance of aid to schools by the State, which is assumed to be about 51 percent, which we cannot match. And so it makes our property taxes high because of the State not being able to fund all of it, and as the property taxes go up, then that really does increase our liability. But you have been able to cut the school taxes by 27 percent, and then by seniors of 45 percent. I am amazed. I would love to know how you did that without raising other taxes. And we considered income taxes, we

went to some of the service taxes and used part of our surplus, but could not come up with just having the money available.

Governor PATAKI. Well, from the beginning, I realized that one of the most destructive taxes was the school property tax, particularly for senior citizens. Too many New Yorkers worked all their lives, lived in their homes, sent their children to school, and then had to give up their house because of the school taxes. We would have budget votes and, Congressman Lazio knows, on Long Island you would have battles between senior citizens and advocates for education over whether or not to approve the school budget. It wasn't that the seniors didn't want their grandchildren to get a good education, it was they didn't want to get taxed out of their homes. It was a completely unfair proposition.

So that is why our STAR Program, our school tax reduction program was so important. What we did is discipline the government. We said, as the economy grows, as additional revenues come in, we are going to put them into a program that is going to be focused on education and on relieving the school tax burden. We passed the STAR Program, it is going to save homeowners in excess of $2.5 billion a year off their school property taxes. But at the same time, we expanded State aid to local education. And the way you do it is simply by looking at areas that should not be as high a priority. We have reduced the State bureaucracy by about 20,000 workers. That is saving us hundreds of millions of dollars a year. And not only is it saving us money, it is allowing the government to function more effectively, because you don't have people tripping over each other trying to force somebody to file another form that they are going to go then read and send a letter about.

So if you can control spending in the areas such as the State bureaucracy, and again, let me thank the Congress, because one of the reasons we have been able to make this type of investment in tax relief and in education is because of the historic welfare reforms; 650,000-plus fewer people on welfare, that is saving us $153 million a month. It is an astounding number. Workfare works, requiring able-bodied people to participate in order to get a check works.

So if you can control spending, reduce the costs in other areas like the State bureaucracy, and then allocate it to something like school tax reduction and education, you can end this battle of neighbor against neighbor when it comes time to approve a school budget.

Mrs. BIGGERT. So was there a big increase in the amount that you then put into education?

Governor PATAKI. Yes. Not only—as Congressman Lazio pointed out, when we did the STAR Program, in the past, the State government would pass an exemption and then let the local government or the school district figure out how to pay for it, so that the State politicians would be the heroes and the local ones would be the ones who are left holding the bag.

What we have done with our STAR Program is we created an exemption for the average senior citizen. That exemption is a $50,000 exemption on the value of their home, for which no school tax is paid. But to prevent the school district from losing the money, the State pays that amount directly to the school district, so that the

school district gets all the funds it would have gotten, but that the homeowner no longer has to pay taxes on that value of their home, and in many of the upstate counties a $50,000 home is the value of the home, so they pay no school tax at all.

Not only have we done that; but at the same time in both 1997 and 1998, we had the largest increases in State aid to local schools ever in the history of the State. Last year our increase in aid to the schools was over $800 million.

Mrs. BIGGERT. And you mentioned the welfare, and that was a concern in Illinois too, and has been very successful. My concern has been from a State perspective that there can be some back-pedaling on the Federal level, and since it is working, there has been some talk well, let's cut, because they are not going to need all of that, and that is my fear, so I hope that the States will keep the pressure on that to not allow us to do that.

Governor PATAKI. Congresswoman, that is a very valid point. I totally agree with you. Just as I was saying that as we cut State taxes, we didn't shift the burden to the local government. We don't want Washington to shift the burden to the States on things like welfare, and we hope that the programs that have been so successful will continue.

Mrs. BIGGERT. Thank you very much.

Thank you, Mr. Chairman.

Mr. BURTON. Thank you, Congresswoman Biggert.

Mr. Meeks, thank you for visiting with us. Do you have any comments you would like to make?

Mr. MEEKS. Thank you, Mr. Chairman.

Welcome to Washington, Governor.

Governor, I am sure you know that I am not one of the converted, and there are many issues that I disagree with and have a different viewpoint with reference to what is going on in the State of New York. However, I didn't come here for that. I came here to say thank you for your statement in reference to the recent issues that are going on in the city of New York. Your voice was heard, and we appreciate that statement.

I came here also to say that though I don't view many of the issues the same way as you do, you have had a staff here that has been open and willing to talk and been very beneficial to my office, as well as the incidence of, particularly within my district, as you know, the Springfield Gardens has had a situation with reference to flooding that is unheard of, and time after time after time, and again with no resource, and you met with Senator Waldon and Councilwoman Juanita Watkins and State Assemblywoman Pauline Rhodd-Cummings, and, in fact, gave some grant money and some relief to those homeowners.

I just wanted to say that though we differ and, in a different time, I reserve the right to be very critical of some of the policies that you have set forth. Still, you have been open, and I look forward to working with you with reference to the Eastside Access Program and the light rail and reramping JFK airport and, hopefully, working together to make sure that local businesses and minority businesses and women-owned businesses have an opportunity to participate in the economic development that is being spurred on in large part by your office in Southeast and Queens.

Governor PATAKI. Thank you, Congressman. We are one State, and when we had the horrible ice storms in Congressman McHugh's district, you were there willing to help us out, Congressman Towns was willing to help us out in dealing with that disaster, and when they had the flooding in Southeast Queens, we are going to be there. It is just a shame that in the past, that hasn't happened. We are going to continue to be there.

With respect to what is going on in Queens, the revitalization in downtown Jamaica is just very exciting, and we intend to be very active in the State in moving forward with that and involving the community, because it is absolutely essential to do that. I appreciate your reserving your ability to criticize me in the future. I am absolutely confident that that will happen. But let me also just say that I appreciate the respect with which that criticism and my acceptance of that criticism will go forward.

I think elected officials get in trouble when they are 100 percent convinced that they are the only one who is right. Nobody is always right. Nothing cannot be improved, and you have to listen to those who are critical of your ideas, because sometimes they are right.

Mr. BURTON. Thank you, Congressman Meeks.

Let me just say that I have been impressed not only with your tax cutting and your administration in New York, but I have been impressed with the kind of bipartisan and nonpartisan attitude that has been expressed by Congressman Meeks and Congressman Towns and others today, so they are to be congratulated as well as you, Governor.

Let me just say in closing that we have had Governor Whitman of New Jersey, Governor Huckabee of Arkansas, Governor Gilmore of Virginia and now you, Governor Pataki of New York, and you have all said pretty much the same thing that cutting taxes stimulates economic growth, creates jobs and helps your States and has helped your States. That is a lesson that I hope is not lost on the Congress of the United States, and Congressman Lazio, we appreciate very much your being here and being such a supportive Congressman and help to the Governor as well.

We are going to continue our hearings in the future. On April 22nd we are going to have Governor Tommy Thompson talk about welfare reform which you alluded to today, and he is going to be testifying on how that has helped his State. One of the things that we want to convey to the American people is that this Congress—transferring control and ability to govern back to the States works and allows you to do your job more efficiently, and cutting taxes works as well.

So Governor, thank you very much. You have been a great witness. Thank you, Congressman Lazio.

This hearing stands adjourned.

[Whereupon, at 12:01 p.m., the committee was adjourned.]

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