

Cost of Government Day[®] Report Calendar Year 2004

Twelfth Edition

Research and Analysis by
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OVERVIEW OF RESULTS

Definition

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

Cost of Government Day 2004

Cost of Government Day for 2004 is July 7th. 2004 COGD is slightly lower than the revised 2003 Cost of Government Day of July 8th. As a result, working people must toil on average 189 days out of the year just to meet all the costs imposed by government. In other words, the cost of government consumes 51.6 percent of national income.

Changes to the Cost of Government Day Report

In December 2003, the Bureau of Economic Analysis (BEA) released the results of a comprehensive benchmark revision to the national income statistics used to calculate the Cost of Government Day report. Data was revised going back to 1929 and the most significant changes occurred in the past few years. This revision significantly changed the composition of the historical COGD date.

Based on the revised data, government spending was undercounted by more than \$2 trillion from 1977-2002, while national income was undercounted by \$974 billion. Given that government spending outweighed national income, the average American worked a total of 125 more days to pay for government spending than was previously expected.

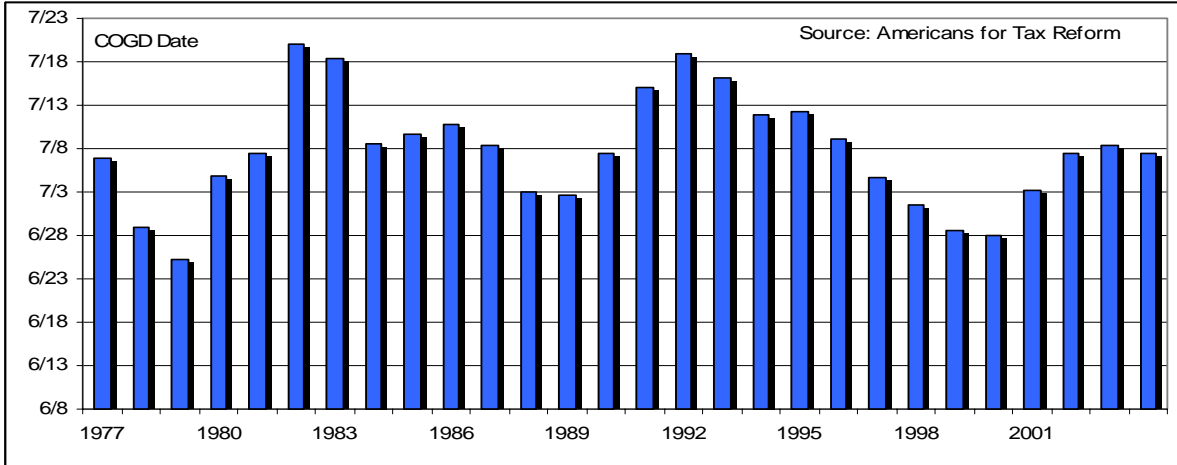
At the same time, the revisions showed national income increased faster than government spending than was previously expected in the late 1990's through 2002. This had the effect of reducing the number of days worked to pay for government spending over the past decade than was previously expected.

These changes also had a significant effect on the 2003 Cost of Government Day report issued last year and what is in the report this year. According to last year's report, ATR estimated COGD to be July 11th. However, in light of the new data, coupled with stronger than expected economic growth following the Bush tax cut, the revised Cost of Government Day for 2003 was July 8th.

Cost of Government: Trends

Cost of Government Day falls one day less in 2004 than it did last year and is the first decline after three straight years of increases. Slower economic growth, a recession, the war, and corporate scandals were responsible for the substantial increases in previous years. However, it appears the index has turned the corner. The decline in 2004 wipes out the increase that took place in 2003 and COGD is now at the same level it was at in 2002. The acceleration of economic growth in the wake of the latest Bush tax cut has produced more income for Americans which has mitigated the large increases in spending and regulations in 2003 and 2004. Moreover, COGD is still 5 percent above 2000's level and the average American is working more than nine days to pay for the cost of spending and regulations than they did just four years ago.

Cost of Government Day 1977 – 2004

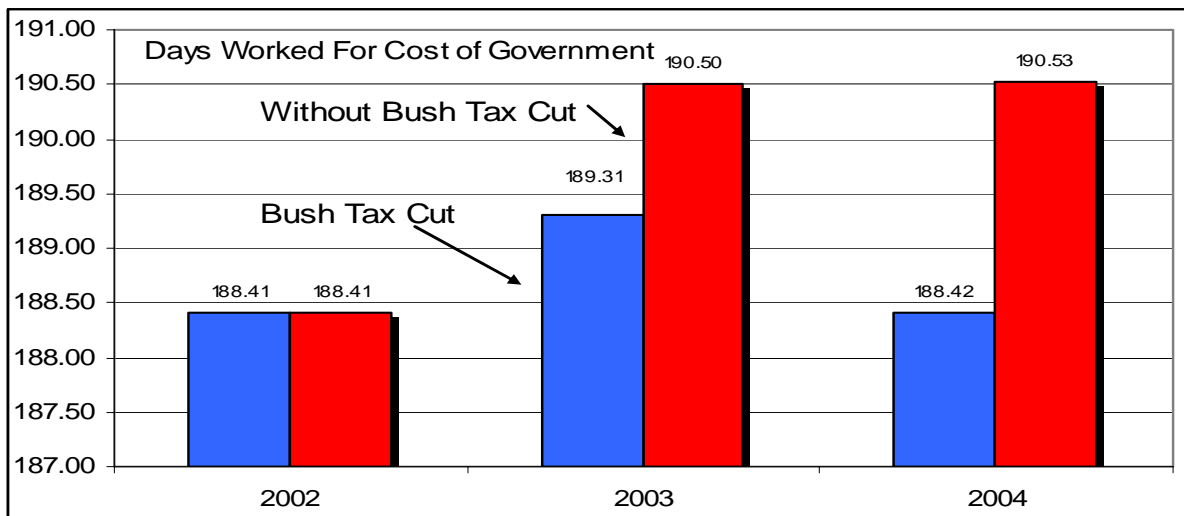


Cost of Government Day: Components

A major reason for the decline in this year's index is due to the strong economic growth in the second half of 2003 and throughout 2004. On May 28, 2003 President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) which reduced income taxes, cut the capital gains tax, slashed the double tax on dividends and provided incentives for business investment. Immediately following the enactment of the tax cut, economic growth accelerated to its fastest pace in twenty years. The new economic growth, which stemmed directly from the tax cuts, boosted the nation's income much greater than was expected and directly reduced the cost of government.

In fact, nominal Gross Domestic Product (GDP) accelerated roughly 65 basis points faster in 2003 than was expected and an additional 50 basis points faster than originally expected in 2004. The effect of this new compounded growth has led to greater national income growth. All together, the Bush tax cut reduced the total cost of government 1.2 days in 2003 than without the tax cut and another 2.1 days in 2004. As such, the average American would have worked an additional 3.3 days over the past two years without the tax cut. The effect was so pronounced that COGD would have increased in 2004 without the tax cut rather than declined.

Bush Tax Cut Slows Cost of Government Growth

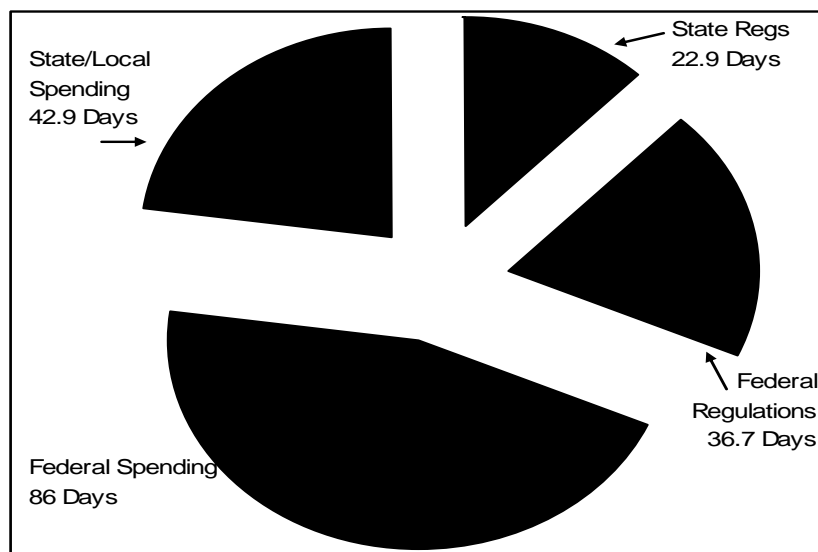


However, the tax cuts that worked to boost economic growth are threatened by the continued rapid increase in federal spending. For the fourth consecutive year federal spending continued to increase above the rate of national income and the average American needs to work 7.5 more days in 2004 than was required in 2000. Roughly 2.5 days of this increase in federal spending is the result of additional federal aid to state and local governments, which have enabled state and local governments to slow their own spending, but still maintain record amounts of spending. As a result, state and local government spending declined for the third consecutive year and the average American is working roughly the same amount of days as was the case in 2000. Taken together, the average American will work 129 days in 2004 to pay for total government spending, 7.3 days above 2000 levels.

Regulations as a percentage of national income posted its first significant decline in four years, which has resulted in one less day of work for the average American. New regulations stemming from the War on Terrorism and corporate scandals dramatically increased the regulatory burden in 2001 and 2002. It appears that the regulations are starting to decline and in 2004 the average American will have to work 59.6 days out of the year to pay for all regulations. Yet, the average American is still working more than two days out of the year to pay for regulations than was required in the 2000. Even with the 2004 decline, the average American has worked a cumulative nine additional days for regulations since 2000.

Despite the decline in the cost of government in 2004, this should not be read to be that government has been put on diet. In fact, all four variables continued to increase in 2004, it's just that three of the four variables declined relative to the growth of national income. National income increased at a stellar 5.5 percent rate in 2003 and is expected to increase at a 5.9 percent rate in 2004. State & local spending and federal and state regulations will increase in 2004, just at a rate lower than 5.9 percent. Moreover, national income is growing quite significantly by historical standards and the fact that COGD was reduced by just one day while growth has been substantially higher than normal means that expected future increases in the COGD should not be ruled out in future years.

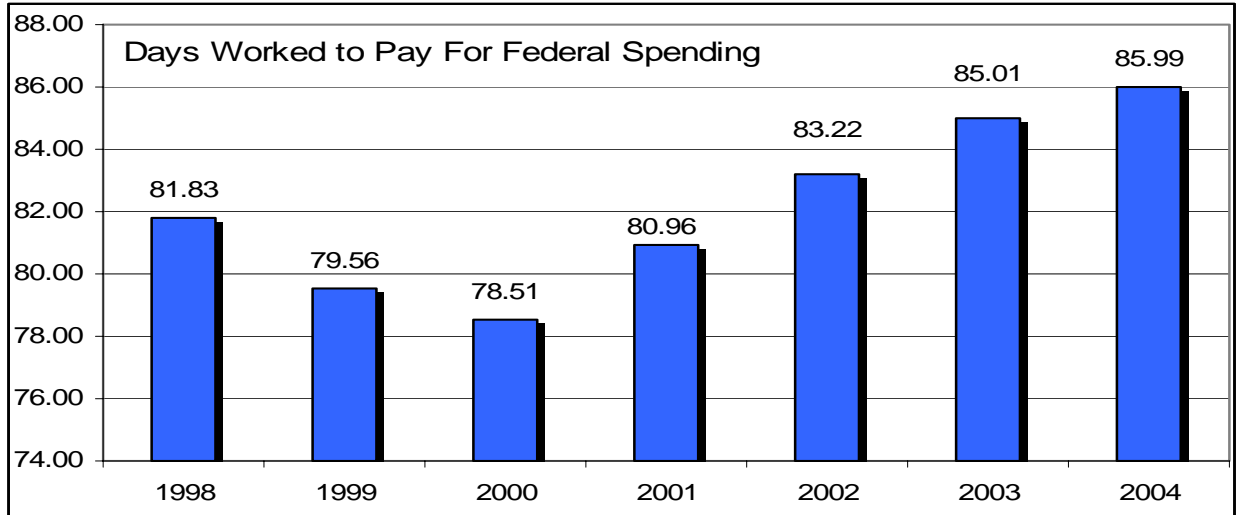
2004 Cost of Government Day Components



Federal Spending

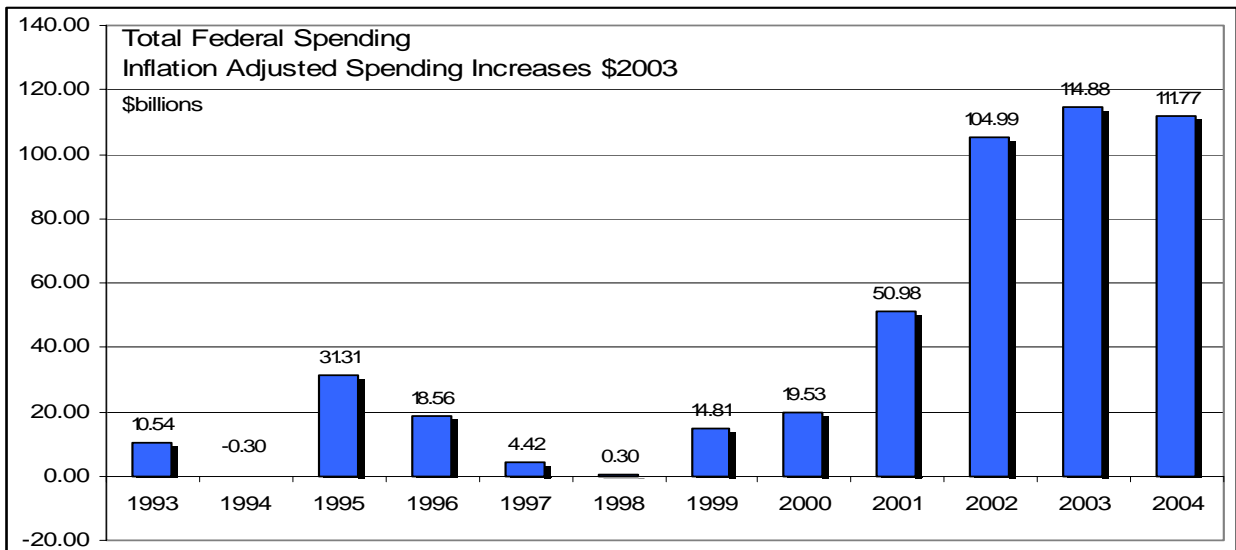
Federal spending continues to be the single largest component of the total cost of government and represents 80 percent of the increase the total COGD since 2000. In 2004, the average American will have to work 86 days out of the year to pay for federal spending, which is an increase of one day compared to 2003 and 7.5 additional days than was required in 2000. In total, the average American has worked a cumulative total of 21.2 additional days to pay for the substantial increases in federal spending since 2000.

Since 2000, Americans Must Work 7.5 More Days a Year to Pay For Federal Spending



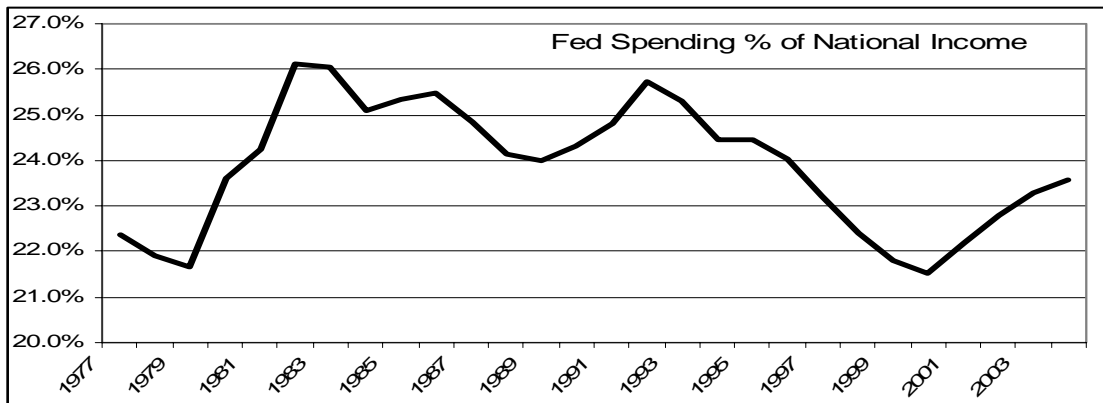
The acceleration of federal spending has been dramatic. Based on the 2004 numbers, the combined inflation adjusted spending increase amounts for calendar year 2001 – 2004 more than triples the amount of federal spending for the period of 1992 - 2000. In other words, in just the past three years, federal increases are 3.5 times the amount spending increased in the previous eight years combined.

Annual Federal Spending Increases CY 93-04 (billions of \$2003)



The rise in federal spending over the past four years is in direct contrast to the previous trend when spending as a percentage of national income declined every year from 1993 until 2000. Federal spending (as a percentage of income) declined for eight straight years, which reduced government spending from one out of every four dollars of national income to one out of every five dollars. By 2000, average Americans worked 14.3 days less of the year to pay off their federal spending burden than in 1992. In just the past four years, however, more than half of the unprecedented eight-year decline has been eliminated. Accordingly, nearly 80 percent of the total cost of government increases since 2000 is due to the increases in federal spending.

Federal Spending as a % of National Income

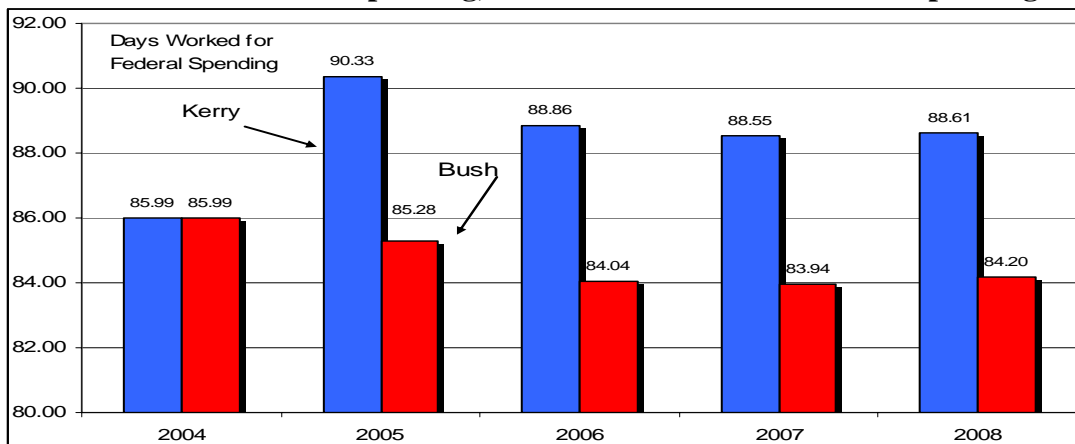


Bush v. Kerry

In the 2004 presidential race, President Bush will be challenged by Sen. John Kerry. ATR has estimated the proposed federal spending for both candidates. Totals were taken from estimates by the Office of Management Budget and the Congressional Budget Office. Sen. Kerry's proposals were tallied by ATR and were added to baseline of current federal spending.

Overall, the cost of federal spending is expected to decline slightly under Bush in 2005 by 0.7 days and continue its downward trend through 2008. Kerry will boost federal spending significantly in 2005 and by 2008 the average American will work 3 more days for federal spending. When Bush and Kerry proposals are compared side by side, the difference will result in the average American working 4.4 fewer days for Bush than for Kerry in 2008 and 19 cumulative days over the term.

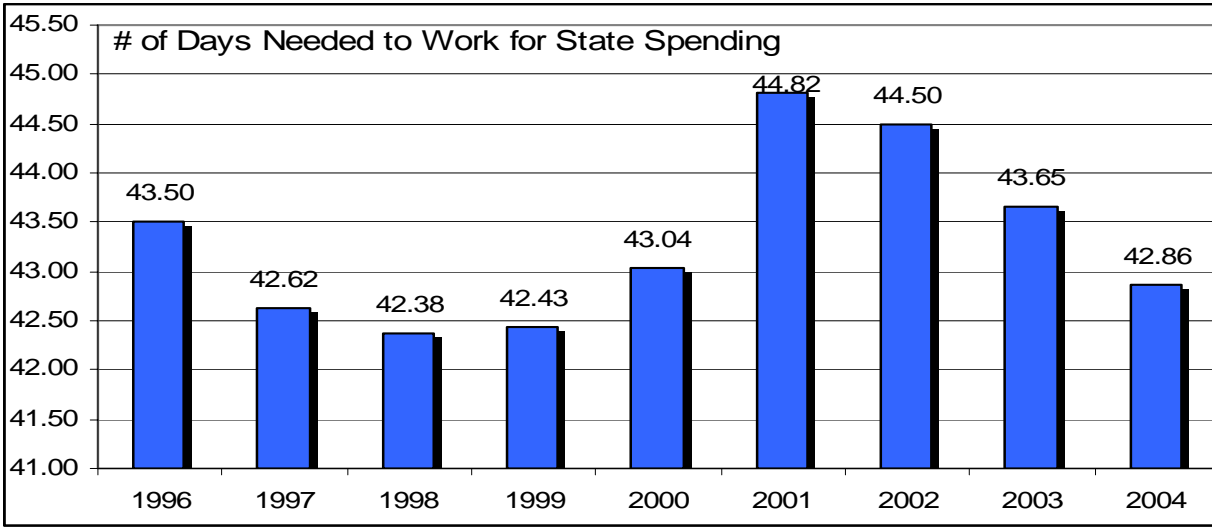
Kerry Increases Cost of Federal Spending, Bush Reduces Cost of Federal Spending



State and Local Spending

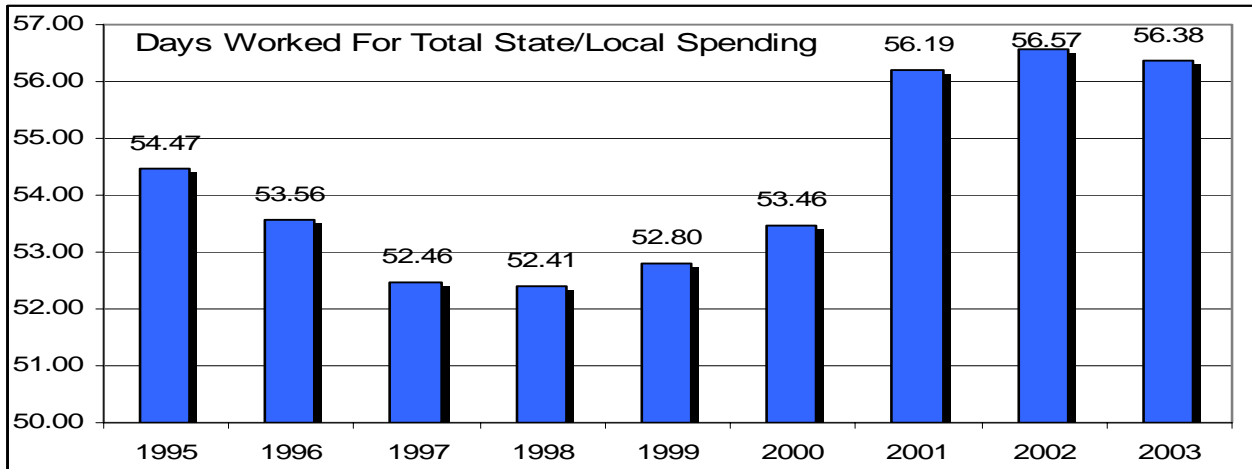
This year, the average American will work 42.9 days to pay for state and local spending, which will be the third straight decline as a percentage of national income is as many years. The decline will be less than one day; however, the average American is working nearly two less days out of the year to pay for state and local spending than was required in 2001. State and local spending as a percentage of income increased every year from 1997 though 2001 and the recent three-year decline has put state and local spending back around 1997 levels.

of Days Needed to Work for State and Local Spending 1996-2004



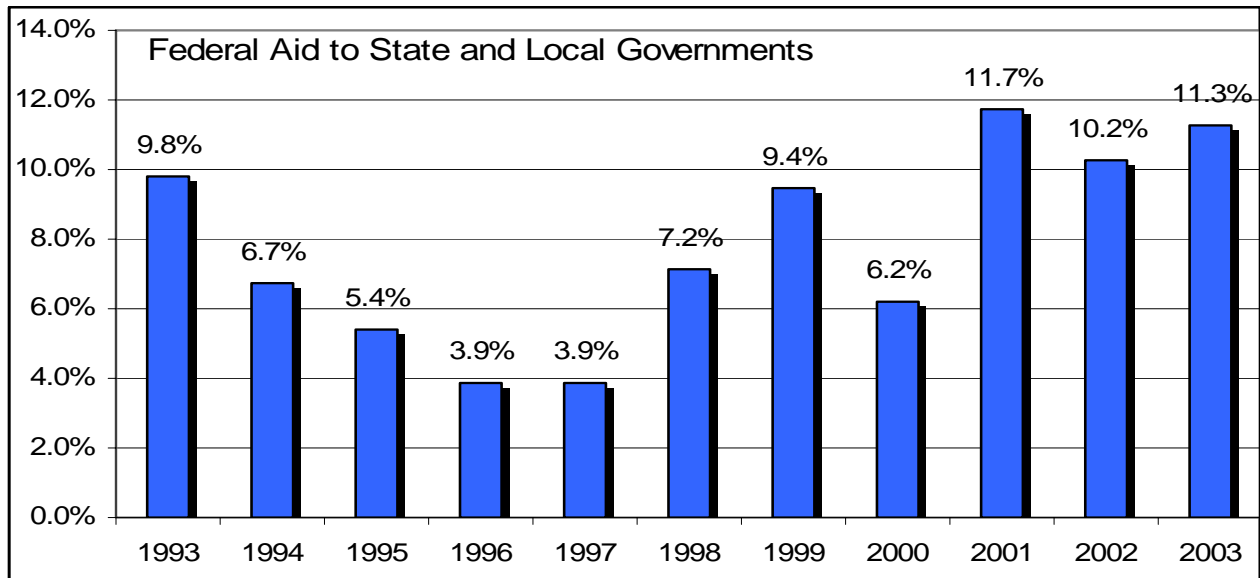
The decline, however, does not mean that state and local governments have been frugal during the economic slowdown. The state and local spending number above does not include aid provided by federal government to state and local governments, which has dramatically increased under Bush. When federal aid is included in the state and local spending number, the average American is working 13 days more for total state and local spending. The enormous amounts of aid provided to state and local governments since 2001 has put state and local government spending at its highest level ever.

States Are Still Spending – The Money Is Just Coming From Washington

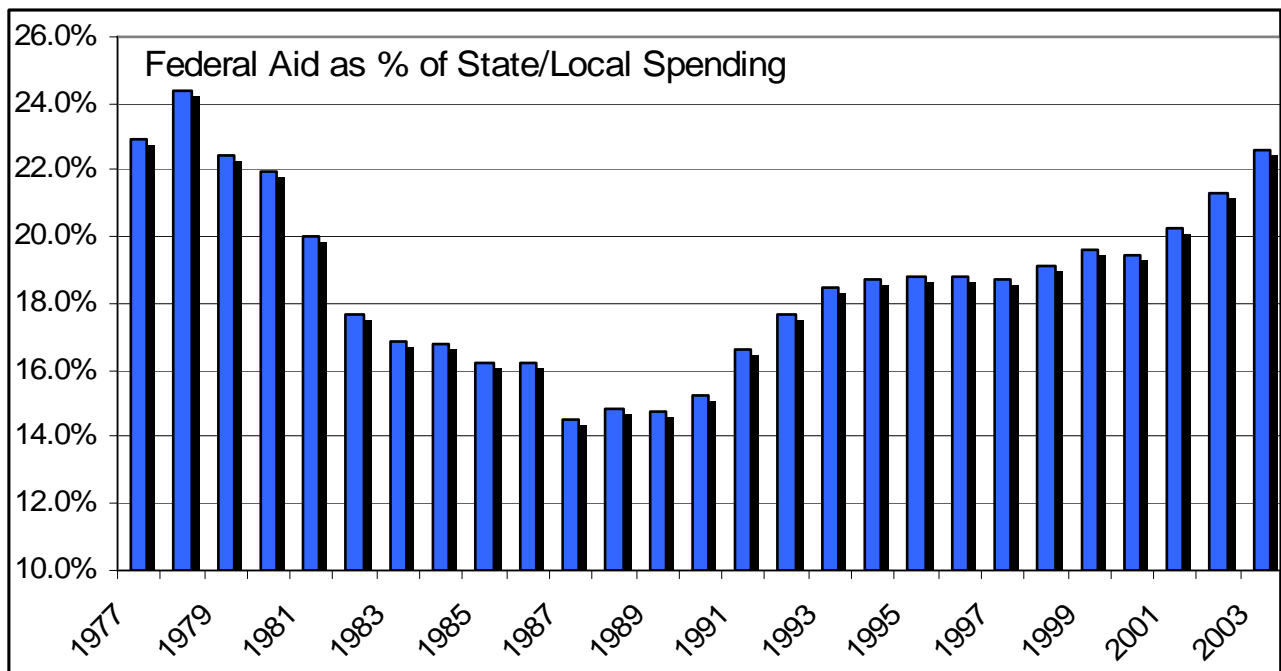


Opponents of tax cuts are losing the battle with voters and as such have started a new campaign to mislead American voters which claims cutting federal taxes has raised state and local taxes. The argument is based on the incorrect assumption that cutting federal taxes has resulted in less money for state and local governments. Nothing could be further from the truth. In fact, federal aid to state and local governments increased more than 37 percent in the first three years of the Bush Administration. Furthermore, aid to state and local governments has increased by an average of nearly 11 percent annually; nearly double the annual amount in the Clinton Administration.

Federal Aid to State/Local Governments Dramatically Increases Under Bush



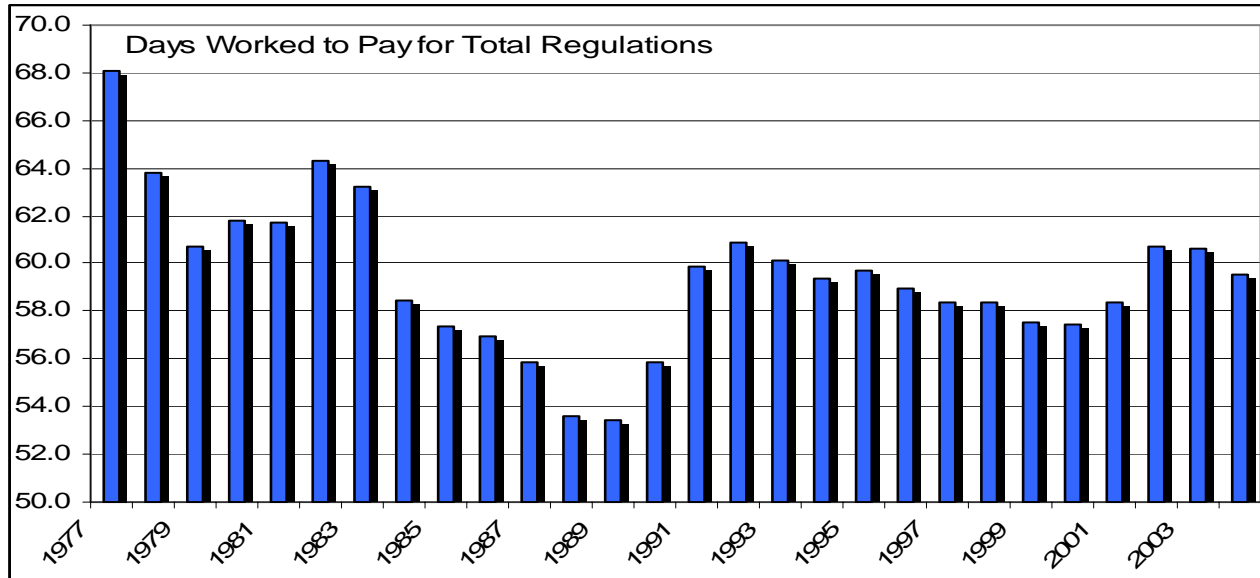
Federal Aid Soaring as a Percentage of State and Local Spending



THE BURDEN OF REGULATION

Regulations as a percent of national income declined for the first time after substantial increases in 2001 and 2002 and holding steady in 2003. Regulations cost 16.3 percent of all income produced in the country. In 2004, the average American will have to work 59.6 days out of the year to pay for all regulations, which is a decline of more than one day compared to 2003. Yet, the average American is still working more than two days out of the year to pay for regulations than was required in the 2000. Even with the 2004 decline, the average American has worked a cumulative nine additional days for regulations since 2000.

Total Regulatory Burden 1977-2004



The two year decline in regulation is encouraging. This change is in stark contrast to the developments that took place two years in the wake of the corporate accounting scandals. Congress pushed through “knee jerk” legislation called Sarbanes-Oxley designed to clamp down on wrong doing by corporate leaders. The problem, however, was that less than 20 companies were found to be fudging numbers out of more than 13,000 companies reporting to the Securities and Exchange Commission.

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

Moreover, legislation is being pushed in the U.S. Senate to implement the international Kyoto Treaty, which would impose a severe regulatory burden on the nation. A recent study found household purchasing power would be reduced by as much as \$2,255 per family, more than 600,000 U.S. jobs would be eliminated, electricity costs would be increased by 43 percent and U.S. economic output would be reduced by 1.7 percent. Passage of this legislation would dramatically increase the regulatory component of the cost of government.

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

This leaves out all of the negative economic effects of the costs of regulatory requirements. These added costs slow the economy, as they introduce inefficiencies and distortions, and reduce the economic reward left over for productive activity. The new costs may prevent new firms from entering the market, or stop existing ones from expanding. They may even force some existing firms out. The end result is less overall output, fewer jobs, lower wages and lower overall economic growth.

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

STATE-BY-STATE BREAKDOWN

Below is the Cost of Government Day for each state based on the varying government burdens that apply to each state. Federal spending burdens vary because relatively higher burdens are borne by

states with relatively higher incomes. Of course, state and local spending burdens vary by state as well.

The highest state Cost of Government Day by far is in Connecticut. The day there falls 22 days later than the rest of the country, coming on July 29th. This is two days later than Cost of Government Day for the second highest state, New York. The burden in Connecticut is so onerous both because it has very high relative incomes, getting a big hit from the federal income tax, and because it has high state and local taxes.

The third highest Cost of Government Day state is followed by New Jersey, Massachusetts, and then Rhode Island.

| | # Of Days Worked For Government | 2003 Cost of Government Day | Rank in 2003 |
|----------------|--|------------------------------------|---------------------|
| United States | 188.4 | July 7th | -- |
| Alaska | 168.0 | June 16th | 1 |
| Alabama | 175.7 | June 24th | 2 |
| South Carolina | 175.7 | June 24th | 2 |
| Tennessee | 175.7 | June 24th | 2 |
| Louisiana | 176.9 | June 25th | 5 |
| Mississippi | 176.9 | June 25th | 5 |
| Oklahoma | 176.9 | June 25th | 5 |
| South Dakota | 176.9 | June 25th | 5 |
| Iowa | 178.2 | June 27th | 9 |
| North Dakota | 178.2 | June 27th | 9 |
| Arkansas | 179.5 | June 28th | 11 |
| Missouri | 179.5 | June 28th | 11 |
| Montana | 179.5 | June 28th | 11 |
| West Virginia | 179.5 | June 28th | 11 |
| Delaware | 180.8 | June 29th | 15 |
| Idaho | 180.8 | June 29th | 15 |
| Kentucky | 180.8 | June 29th | 15 |
| Nebraska | 180.8 | June 29th | 15 |
| Kansas | 182.0 | July 1 | 19 |
| North Carolina | 182.0 | July 1 | 19 |
| Oregon | 182.0 | July 1 | 19 |
| Pennsylvania | 182.0 | July 1 | 19 |
| Indiana | 183.3 | July 2 | 23 |
| New Hampshire | 183.3 | July 2 | 23 |
| Texas | 183.3 | July 2 | 23 |
| Florida | 184.6 | July 3 | 26 |
| Hawaii | 184.6 | July 3 | 26 |
| Utah | 184.6 | July 3 | 26 |
| Arizona | 185.9 | July 4 | 29 |
| Georgia | 185.9 | July 4 | 29 |
| Michigan | 187.1 | July 6 | 31 |
| New Mexico | 187.1 | July 6 | 31 |
| Ohio | 187.1 | July 6 | 31 |

| | | | |
|---------------|-------|---------|----|
| Vermont | 187.1 | July 6 | 31 |
| Virginia | 187.1 | July 6 | 31 |
| Colorado | 188.4 | July 7 | 36 |
| Illinois | 188.4 | July 7 | 36 |
| Maryland | 188.4 | July 7 | 36 |
| Minnesota | 189.7 | July 8 | 39 |
| California | 191.0 | July 9 | 40 |
| Nevada | 191.0 | July 9 | 40 |
| Wisconsin | 191.0 | July 9 | 40 |
| Wyoming | 192.2 | July 11 | 43 |
| Maine | 193.5 | July 12 | 44 |
| Washington | 193.5 | July 12 | 44 |
| Rhode Island | 194.8 | July 13 | 46 |
| Massachusetts | 197.3 | July 16 | 47 |
| New Jersey | 198.6 | July 17 | 48 |
| New York | 208.8 | July 27 | 49 |
| Connecticut | 210.1 | July 29 | 50 |
| Washington DC | 208.8 | July 27 | - |