



AMERICANS FOR TAX REFORM

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President

COST OF GOVERNMENT DAY IS JUNE 29TH 2002

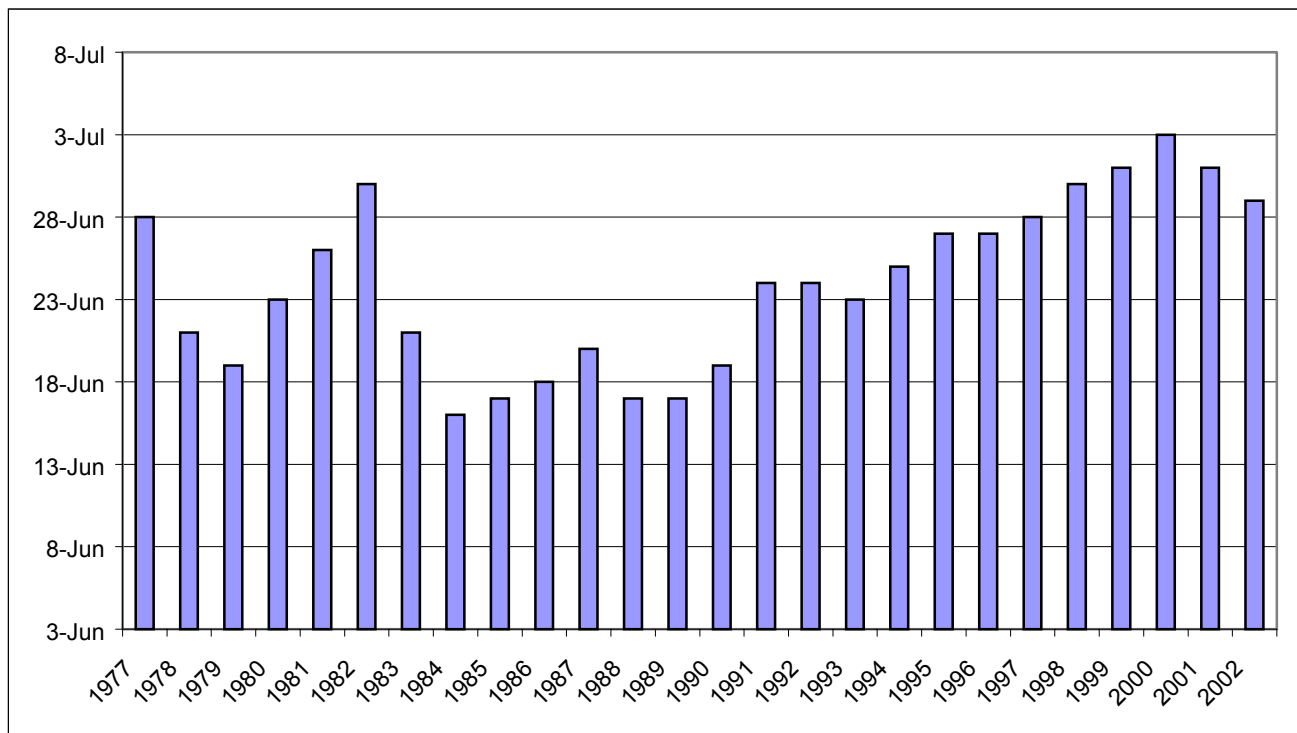
Definition

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 tax and regulatory burdens imposed by all levels of government, federal, state and local.

Cost of Government Day 2002

Cost of Government Day for 2002 is June 29. This is 2 days earlier than the revised Cost of Government Day of July 1 for 2001 and its lowest level since 1997.¹ As a result, working people must toil on average 179 days out of the year just to meet all the costs imposed by government. In other words, the Cost of Government consumes 49% of national income.

Table 1: Cost of Government Day 1977 – 2002



Source: Americans for Tax Reform

¹ Cost of Government Day 2001 was revised based on final data for economic growth and Federal, state and local revenues.

Cost of Government: Trends and Components

Cost of Government Day is 2 days earlier than it was last year and lower than it has been in 5 years, since 1997. This was primarily due to the 2 Bush tax cuts adopted since he took office, The Economic Growth and Tax Reform Reconciliation Act of 2001 (EGTRRA), enacted in May 2001, and the Job Creation and Worker Assistance Act of 2002, enacted in March 2002. Restraint in the growth of Federal regulations and in state and local revenues also helped. The decline would have been even greater except for a 50% increase in the estimated cost of tax compliance produced by the Tax Foundation, which is included in the estimate of regulatory costs.

This decline is all the more remarkable because the United States is involved in a major military conflict. Policymakers should begin to focus on reducing the cost of government substantially once that conflict is over. The data shows they also need to focus on tax reform to reduce the needlessly high cost of tax compliance.

The Cost of Government is still substantially higher than during the 1980s, when President Reagan led the nation in bringing Cost of Government Day down to mid-June. Returning to that level should be a short-term policy goal.

Why? First because a lower Cost of Government means more of the money produced by workers, investors and entrepreneurs is left in their hands. That expands the economic freedom of everyone in the economy to choose how to consume, save and invest what they produce. It increases personal choice and control. Moreover, expanding the freedom and control of all over what they produce follows sound notions of economic justice.¹

Secondly, a lower Cost of Government increases the incentives for work, savings, investment and entrepreneurship. That is because with less taken in taxes and regulatory costs, the reward for all these economic activities increases. That in turn will mean more work, savings, investment and entrepreneurship. The end result would be expanded economic growth and opportunity, with more jobs, higher wages, and increased personal income overall.

The largest component of the Cost of Government is Federal taxes, which account for 44% of the total. Federal regulation and state and local taxes each account for another 21%, with state and local regulation accounting for 13%.

Federal, state and local taxes combined account for 65% of the total Cost of Government. Federal, state and local regulations account for 34% of the total, with combined deficits accounting for 1%.

The Federal government accounts for 66% of total costs, with state and local governments accounting for 34%.

¹ Robert Nozick, *Anarchy, State and Utopia*, (New York: Basic Books, 1978).