

# EMPLOYER ADVOCATE

516 NORTH ADAMS STREET • P.O. BOX 784 • TALLAHASSEE, FL 32302 • PHONE (904) 224-7173 • FAX: (904) 224-6532

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## New Taxes

by Florida Governor Lawton Chiles

Back in 1948, there were no fence laws in Florida. Drivers routinely ran into cattle and were bound by law to pay the owner for damage to his livestock. That may sound outrageous, but such laws were fairly common, given the rural makeup of the state.

A lot has changed since then, but Florida's tax structure hasn't changed much at all.

The present system was designed to lure businesses here to develop a wild and unsettled peninsula – not to meet the needs of the nation's fourth largest state. The challenge before us now is to create a tax system that addresses our needs, keeps pace with our growth, and allows us to improve our quality of life.

Naturally, some folks question the wisdom of undertaking major tax reforms during a recession.

The argument has been that industry will suffer and recovery will be slowed. But I challenge any business in Florida – small or major corporation – to show me that any of these taxes will substantially impact their bottom line. Further, economists will tell you that this \$1.3 billion tax reform package in a \$29 billion budget is not of the size nor the coverage to hinder economic recovery.

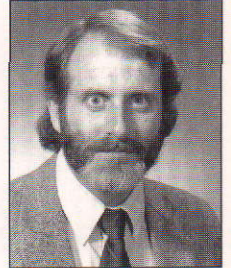
Good business people know that even when times are tough, you have to make investments that are sound and offer good returns. *Capital improvements and maintenance* are essential to survive in the business world.

That's how I look at our budget problems. But instead of thinking only of fixed capital, I think of human capital as well. My concern is humanitarian, but as chief budget officer, it also must be pragmatic. If we don't make the critical investments now, we will face higher costs later.

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*New taxes or No taxes. The halls of the Capitol are filled with the battle cries of those who want the money and those who will have to pay the money. AIF is taking the position that now is not the time for higher or new taxes. An added tax burden on business will only entrench the recession we're in.*

*There is no question that current state revenues do not meet expenses. Is it because the tax structure is inadequate or is the money unwisely spent? How that question is answered is crucial to business. That's why we asked both sides to present their arguments.*



## No Taxes

by Randall G. Holcombe  
Professor of Economics, Florida State University

Arguments in favor of increased taxes in Florida fall into two categories. The first is that Florida needs new revenues now to address the current budgetary crisis. The second is that Florida's antiquated tax structure needs to change to keep up with the times. Neither of these arguments holds up when the facts are examined. Florida's existing tax structure will keep up with Florida's income growth for the unforeseeable future. Tax increases are justified only if Florida's citizens want bigger government.

Consider the current budget crisis. As originally passed, the current year's budget was \$29.4 billion. The revenue estimates in the budget proved overly optimistic and the budget has

been cut by about \$1.5 billion, leaving the actual current budget, after cuts, at \$27.9 billion. As I am writing, it appears that the Legislature will send a budget for next year of \$29.7 billion to the governor. This \$29.7 billion represents an increase of more than 6 percent over this year's actual budget. Limiting the state to a 6 percent increase during a recession is what many people are referring to as a crisis.

Taking a longer view, some people argue that Florida's tax structure is inadequate for keeping up with Florida's growth. The facts suggest otherwise. During the 1980's, Florida's taxes grew 7 percent faster than Florida's income. In 1980, Florida raised \$712 per person in taxes, after adjusting for inflation. By 1989, Florida raised \$983 per person. This is a 38 percent increase in tax revenues per person during the 1980's, adjusted for inflation. Florida's taxes have more than kept up with Florida's growth.

The 1980's did see rate increases to produce these revenue

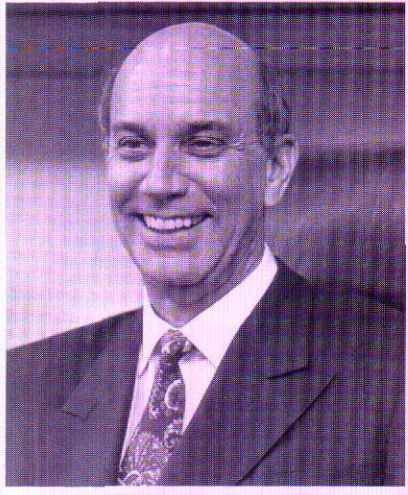
(See "No Taxes" on page 2)

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No Taxes

## President's Message



by Jon L. Shebel

# Inside and Outside the Capitol

Remember playing chicken in your younger years? The game is alive and going strong in Tallahassee. Now that the Regular Session has come to an end, the governor and Legislature are locked in a classic standoff over taxes.

The Republican legislators have taken an adamant anti-tax stance. The Democrats are more amenable to the idea, but they don't want to give the Republicans any ammunition in the upcoming elections. Polls show that those of us who make up the general public don't want taxes. If the Democrats follow their leader, they may not find friendly faces at the polls come November. Governor Chiles, however, is unrelenting in his quest for more state revenues. A Special Session will keep both sides on a collision course until one side goes chicken.

Adding spice to the conflict were the teachers unions. Their ads attacking the anti-tax Legislature ruffled more than a few feathers. On the other side, AIF, Florida Retail Federation, and National Federation of Independent Business (NFIB), joined forces in opposition to new taxes. NFIB produced a low-key television ad urging patience in the place of new revenues. Florida's businesses and workers continue to suffer from the decline in the state's economy. No one wants to see necessary services cut, but a recession is the worst time to add to the tax burden.

Taxes were not the only item on the legislative stage this year. Haggling over reapportionment and election year politics were a major attraction in the capitol, but some work did get done. In a short while, Associated Industries will publish *The Summary of Legislation*, a full report on what the Legislature did. We'll let you know as soon as it's available. Meanwhile, you can still order a subscription to *Legislative Letter*, AIF's weekly briefing on key

business issues. *Legislative Letter* is a free service to AIF members. If you'd like to subscribe, call Jane Hennessy or Jacque Horkan at the Association offices, (904) 224-7173. We'll send you the back issues and put you on the mailing list for further reports during the Special Session.

One key item of interest to small business operators — passage of the Small Group Health Insurance Reform Act. This bill gives employers with 3 to 25 employees, more affordable options for purchasing group health plans. Too many small businesses have had to forfeit health insurance benefits for their employees because of the cost. The Small Group Health Insurance Reform Act will give them a break. If you would like a summary of the provisions of this Act, call Melissa Reese at the Association offices, (904) 224-7173.

It's hard to find fault with a law like the Small Group Health Insurance Reform Act. Other laws, however, don't pass that test, no matter how admirable the intent. Even the most honest and responsible business managers can get trapped in the net of

complex laws concerning sexual harassment, negligent employment claims, and the definition of the employer/worker relationship. Violations of these laws carry hefty penalties, even if the violations may be inadvertent. In this issue of *Employer Advocate*, we've asked some experts for advice on how to stay out of trouble when it comes to workplace regulations. Hopefully, these articles will help clarify matters for you.

On a final note, we recently received the sad news of the death of E.T. "Andy" Lay. Mr. Lay worked for the Association in the early years, from 1925 to 1939. He was responsible for starting some of the publications that we prepare to this day. About four years ago, when Mr. Lay visited AIF's headquarters, we had the honor of meeting a gracious and intelligent man. All of us at Associated Industries share in his family's sorrow.

*As always, we'd like to hear from you. Comments, questions, suggestions, even complaints are welcome.*

## No Taxes (continued from page 1)

by Randall G. Holcombe, Professor of Economics, Florida State University

increases, and some critics say that without rate increases, the sales tax cannot keep up with the state's growth. In 1985, the state rate was 5 percent and took 2.68 percent of Florida's income. By 1989, the rate was 6 percent and took 3.44 percent of the state's income. A rate increase of 20 percent produced an increase of 28 percent in the fraction of income paid in sales tax, so sales tax revenues as a percent of income rose faster than sales tax rates. Over a longer period of time, the state rate had doubled from 3 percent to 6 percent since the 1960's, but sales tax revenues as a percent of income have also approximately doubled. Florida's current tax structure is well-designed to keep up with the state's income growth.

Florida's taxes have risen faster than Florida's income in the past, and this year's crisis budget, without new taxes, would still increase government spending by 6 percent in the midst of a recession. Yes, we are facing a crisis in Florida, but the crisis is on the spending side of the budget. Taxes have risen faster than income, but spending has risen faster than taxes. Tax increases are justified only if Floridians want to turn over a bigger share of their incomes to the government.