



AMERICANS FOR TAX REFORM

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Mr. Chairman, Senators, thank you for having me here to speak to you today.

The Taxpayer Movement

I would like to share with the trends of the taxpayer movement sweeping the nation and the momentum that is building for constitutional spending limits and Taxpayers Bills of Rights.

As President of Americans for Tax Reform, I work with officials and activists in all 50 states to advance the cause of limited government and economic growth, including Governor Bush and many of your colleagues here in the state of Florida.

The taxpayer movement has had a remarkable run for the last 25 years. From its early victory at the ballot in California in the late 1970's, to Ronald Reagan's fundamental tax reform, to George W. Bush's four tax cuts in four years, the national debate has switched from growing government to growing the economy through tax cuts.

After the first President Bush broke his no-new-taxes promise in 1990 and then lost the White House in 1992, it has become impossible for a Republican at the national level to vote for a tax increase. And new taxes are becoming off limits for national Democrats as well – Walter Mondale promised tax increases in 1984 and lost 49 states; Bill Clinton ran on a middle class tax cut, but when he delivered the largest tax increase in U.S. history instead, his party lost control of Congress for the first time in 40 years; by his re-election in 1996, President Clinton had abandoned the idea of tax increases, and soon signed several tax cuts, including a cut in the capital gains rate, which contributed to the late 1990's boom.

In the States

Unfortunately, at the state level, the unacceptability of tax increases took much longer to establish. As a result, the 1980's and 90's witnessed an enormous migration of people, businesses, and wealth from Old Economy, high tax states to New Economy, low tax states. Blue chip corporations left New York for no-income-tax Texas; no-income-tax Washington State became a high tech Mecca; manufacturing, wealth, and political power shifted to the Southeast;

knowledge workers and businesses fled the newly-high tax Golden state for Arizona, Nevada, and even Idaho.

But recently, as the national taxpayer movement gained steam and the negative effects of state taxes mounted, state tax increases are becoming increasingly difficult...and dangerous to the politicians who propose them.

A number of lessons have been taught in recent years to politicians across the country—trends show that when the people are allowed a say in tax decisions, they usually vote against the increase, and repudiate those officials who supported the tax hike.

The trend began in Virginia in November of 2002. Voters were asked to approve a half cent sales tax increase to fund new road construction. The measure lost by a 10 point margin in highly-congested Northern Virginia, and by even wider margins downstate. Then in January of 2003, Oregon voters rejected a \$300 billion + tax increase package by a 10 point margin. Then in the summer of 2004, conservative Republican Gov. Bob Riley of Alabama led a crusade for a \$1.2 billion tax increase – literally a crusade, as he explained that Jesus of Nazareth was in favor of the tax hike. But luckily the Alabama constitution requires the approval of the people for such a tax package. On September 9 of that year, the people rejected Gov. Riley and his tax hike by a vote of 68% to 32%.

Even when voters in liberal Seattle were faced with a 10 cent tax on espresso drinks for early childhood initiatives in September 2003, the measure was overwhelmingly rejected 77% to 23%.

The next month, voters in California recalled Gov. Gray Davis for his profligate spending and his tripling of the Car Tax. Davis was replaced by a governor who promised to cut spending, and who promised not to raise taxes to solve budget problems.

The Oregon legislature apparently did not heed the will of the people when the earlier tax increase was rejected. The legislature passed a billion dollar tax hike and then quickly adjourned last fall. But the citizens of Oregon immediately launched a petition campaign to repeal the tax hike. Nearly 3 times the number of required signatures were collected. And this time, the voters rejected the tax increase by a 20 point margin, rather than the 10 point margin a year earlier.

California voters spoke again in February of 2004. The big spending interests in Sacramento had placed a measure on the ballot to water down California's tough supermajority requirement to raise taxes. But the people voted to keep the anti-tax provisions 63.5% to 34.5%.

In stark contrast to these states, a number of states and their political leaders have made the tough choices to balance their budgets WITHOUT tax increases. For example, Gov. Rick Perry of Texas faced a \$10 billion shortfall last year. But he closed that budget hole without a tax increase. Similarly, Gov. Tim Pawlenty of Minnesota had a \$4.2 billion overspending problem. But he, too, closed the budget hole without a tax increase. Even Gov. Mitt Romney from liberal Massachusetts balanced his budget without a tax increase.

The bottom line is, those public officials who see themselves moving on to higher office – legislators who want to run for Congress or governors who want to run for Senate or President – will find a way to cut spending and not raise taxes. Those who do raise taxes risk repudiation by the voters.

A New Movement – Spending Limitation

As this anti-tax trend is surging across the states, another trend is just beginning – constitutional spending limitation. The chief driver of budget crises, and of ever-increasing tax rates, is unsustainable spending growth. Constitutional spending limits are meant to address this root cause of crisis by imposing a predictable, moderate discipline on state budget growth.

By any measure, state spending during the 1980's, and especially during the 1990's, grew at an unsustainable rate. During the 1980's, state budgets more than doubled in size. When adjusted for inflation and population growth, spending grew by more than one-third during the decade. During the 1990's, spending surged 63%. Because inflation was lower during the 90's, real growth was even faster in that decade than in the 80's. Overall, real spending grew by 3.4% in the 1980's and 3.6% in the 1990's. In the 1990's, that growth rate is 1.3% higher than the rate of personal income growth – clearly an unsustainable trend. (All these figures are courtesy of the American Legislative Exchange Council's "Crisis in State Spending: A Guide for State Legislators.")

Spending growth accelerated with the temporary revenue growth associated with the late-1990's bubble economy. From 1995-2000, state spending grew at an average of 7.5%, or twice the rate of federal spending growth. The California budget grew by double digit rates in each of Gov. Davis's first three years in office. Spending grew by nearly 50% from 1998-2001.

In Alabama, General Fund spending grew at a rate of 5.45% from 1997-2000. But it shot up to 7.25% from 2001-2004, despite the economic downturn. Many states followed a similar path of accelerating spending as revenues dried up – as the economy slipped into recession in 2000, more than a quarter of governors proposed a spending increase of 7% or more that year, and more than half proposed an increase of 5% or more. (ALEC)

Over the long term, personal income and revenue cannot grow at such a rapid pace. A budget crisis was inevitable. And the economic downturn of 2000 provided the trigger to launch budget crises nationwide.

Benefits of TABOR

Budget Stability – A sound, constitutional spending limit similar to Colorado's Taxpayer Bill of Rights (TABOR) is the best method yet designed to avoid such budget crises. A TABOR-style amendment stabilizes budgets and assures predictability to all those who manage or depend upon government funding. But this stabilization is only one of the advantages of a sound spending limit.

Well-designed TABOR models will limit spending growth to a moderate level of either inflation

plus population growth or by utilizing a multi-year average of household income growth. This cap assures that no part of the budget will face an expenditure cut in real terms – inflation-adjusted dollars per person will continue unchanged. But by limiting growth to a level near the long run trend in inflation and economic growth, it avoids the boom-bust cycle that most states so painfully experienced in the past couple years, and in the early 1990's as well. The Florida legislature has exhibited the ability to maintain sensible growth without the utilization of tax spikes for budget balancing in the past; a TABOR measure will ensure a continuation of this course in the future.

Second, a well-designed TABOR will have provisions to save some excess revenues during good times in a reserve fund. Such provisions add to stability and predictability to state budgeting and to recipients of funds. A particularly difficult recession could force revenues even lower than the inflation plus population growth threshold, triggering a budget shortfall (though not as severe as it might be without TABOR). The reserve fund could then be utilized to maintain services during the recession without resorting to new taxes – the worst possible solution during a recession.

Tax Relief – Over time, a well-designed TABOR tends to reduce the burden on taxpayers while maintaining services. By restricting the growth of spending at a level below personal income growth, the wealth of society should grow faster than the burden of government. The resulting excess funds can be used to fund tax cuts or rebates. And leaving more wealth in the people's hands leaves more money for parents to save for college, more money for small businesses to invest and hire, more money for workers to save for retirement. TABOR leads to a wealthier society.

Economic Growth – Numerous studies over several decades comparing the economic performance of high tax states versus low tax states point to much higher growth and prosperity in low tax states. A good catalog of such studies can be found in a paper written for the Texas Public Policy Institute by economist Richard Vedder, Ph.D. (<http://www.texaspolicy.com/pdf/2002-03-29-tax-taxingtexans2.pdf>). In addition, Dr. Vedder did his own study of relative growth rates. First, he compares the 25 states with the highest tax burdens to the 25 states with the lowest tax burdens from 1957 to 1997. He finds that per capita personal income grew by 135% in low tax states over the 40 year period, compared to 120% in high tax states. Real personal income (as opposed to per capita) increase by 315% in low tax states, compared to 268% in high tax states, indicating population growth as well as economic growth.

Dr. Vedder also looked at states that raised their tax burdens most (raised taxes) and those that cut their tax burdens most (cut taxes). When he compared the 10 highest tax increasers and the 10 lowest tax increases (or cutters) over the 20 year period from 1977 to 1997, he found total personal income growth of 72% in the low tax states, versus 52% in the high tax states.

Also cited in the piece are studies that suggest that, while some benefits come from spending associated with taxes, the negative effects of a marginal change in tax burden are about double the positive effects. That is, a one percent increase in the tax burden is likely to lead to about a two percent reduction in private sector benefits to society.

By freeing up money to reduce tax burdens, and minimizing the public sector portion of the economy, TABOR advances the economic growth of the state.

TABOR in Practice

Two states have passed model TABOR-type provisions in recent times.

Colorado – Colorado is the model for the nation. Passed in 1992, Colorado's Taxpayer Bill of Rights mandates three broad issues: spending can increase no faster than inflation plus population growth; a supermajority vote of the legislature is required to raise taxes; and any surplus revenue over the spending cap is immediately rebated to taxpayers each year.

Stability – Colorado's experience shows all three theoretical benefits of sound spending limits. First, budget stability: Colorado avoided the severe budget crises that gripped almost every other state in 2002 and 2003. While Colorado did experience a minor shortfall each year, in magnitude it was nothing similar to California's \$38 billion, Texas's \$10 billion, or Minnesota's \$4.2 billion, or Maryland's nearly \$2 billion shortfall last year. Colorado's budget went from \$5.6 billion to \$5.4 billion to \$5.5 billion. While some cuts were necessary, dealing with a shortfall in the range of a hundred million is much easier than one in the range of two billion.

In addition, Colorado's TABOR has no provision for a small percentage of excess revenue to go into a reserve fund – every extra dollar is rebated to taxpayers. The presence of a reserve fund would have helped Colorado cope with the economic downturn. Currently, efforts are under way to add a reserve fund to the Colorado amendment.

Tax Relief – Colorado residents enjoyed the most tax relief of anyone in the nation during the 1990's. Between 1997 and 2002, Colorado taxpayers received a rebate EVERY YEAR, totaling \$3.2 billion dollars. Notice that this rebate continued until 2002, a year when most states were already struggling with their budgets. And despite rebating money back to taxpayers each year Colorado faced only mild difficulties in 2003 when compared to drastic cuts needed in other states.

And TABOR still remains strongly supported by CO residents: A poll just last month found that 52% of poll respondents oppose weakening TABOR, with only 33% in favor of allowing state government to keep more of their tax revenue instead of returning it to voters.

Economic Growth – That \$3.2 billion of money left in private hands, combined with a less burdensome government, paid big dividends for Colorado's economy. Colorado became a hotbed of high-paying technology and knowledge workers. It was first in the nation in Gross State Product growth from 1995 to 2000. It was second in the nation in personal income growth from 1995 to 2000. The Corporation for Enterprise

Development has ranked Colorado's business climate as best in the nation. All in all, Colorado resident benefited much more than just the \$3.2 billion they saved.

Washington State – Washington implemented a statutory spending cap. In the beginning, the law was remarkably effective, but after a few years, it demonstrated the inadequacy of the statutory approach.

Passed in 1993, Washington's spending limit soon began to rack up large surpluses. That extra money was used first to reduce, then to eliminate, Washington's car tax, saving voters about \$1 billion. Unfortunately, by the late 1990's, the Washington legislature discovered it could rewrite the spending limit, since it was not written into the constitution. Since 1999 or 2000, there has been little effective limit on spending in the state.

What TABOR Would Mean to Florida

As states around the country continued a pattern of unrestricted spending and the creation of new state programming prior to the recession, Florida hunkered down and maintained committed to forcing government to live within its means. Under the leadership of Governor Bush, Florida has not only witnessed continued economic growth each year during his first term, but has additionally reduced the number of state government workers by over 40,000 since entering office.

As jobs were exiting states across the country during the recession, Florida continued to produce the necessary jobs to move the state's economy forward—and still can claim the accolade as the number one job creating state in the nation. What is the reason for this anomaly? It actually is not much of an anomaly at all—just a paradigm of government living within its means. From 1998 to 2002, the cost of government for the other 49 states grew at nearly 3 times the rate of Florida; 15.3% to 5.8% respectively. The growth in spending in the Sunshine State has never outpaced the growth of income for Floridians, which leads to a higher gross state product and employment production.

Yet no one definitively knows what the future holds in Florida. The political landscape could change, natural disasters could once again play a prominent role, and an economic slowdown will almost certainly face the state and nation yet again. A fiscally restrained government has and does currently exist in the state, yet any belief that the future will maintain the same course of fiscal restraint is a foolish safeguard for the taxpayers and families of Florida. A guaranteed restriction on Florida's government to grow too rapidly is imperative to the future vitality of the state.

The Latest Trend

The national taxpayer movement began in 1978, and grew through the 1980's and 90's. Today it is almost impossible to raise taxes in the federal level. The taxpayer movement at the state level was stronger in some states than in others. But recent votes in states and localities across the country demonstrate that state tax increases are becoming more unlikely – and more dangerous

politically – than ever before. That development is leading the way to the latest trend – constitutional spending limitations.

Washington State and Colorado were the vanguard states. Washington demonstrated the weaknesses of statutory limits, while Colorado demonstrated the strength of constitutional limits. Colorado is now moving to improve and refine its limit. At the same time it has become a model for the nation.

Gov. Arnold Schwarzenegger championed the idea of a TABOR-style amendment during his campaign two years ago. Fortunately, the Governor has made good on his promise and plans to bring the measure before the voters of California this year.

A handful of states across the country are also pursuing TABOR and similar amendments. Activists in Maine have been positioned a TABOR measure for the ballot in 2006 with overwhelming support. With the harsh reality faced by state legislatures following the economic slowdown, more than twenty states have set their sights on passing TABOR or TEL amendments in the coming years.

As with any movement in politics, it will take time to build momentum. But the movement has started, and the successful model exists, ready to be copied. If Florida's leaders have the foresight to approve the measure and place it before the people, Florida will position itself as a dynamic state that attracts the best new businesses, technology and knowledge workers, and rising incomes, all while existing without the deterring factor of a state income tax.