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Mr. Chairman, Senators (Delegates), 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 State Government Affairs Manager for Americans for Tax Reform, I work with officials and activists in all 50 states to advance the cause of limited government and economic growth. I can tell you that Sen. Alex Mooney and Del. Herb McMillan, the chief sponsors of this amendment, are at the forefront of a movement that will change America for the better. More on that in a moment.

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 three tax cuts in three 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.

The past 18 months teaches the following lesson – anywhere the people are allowed a say in tax decisions, a tax increase is defeated, and those officials who supported the tax increase are repudiated.

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 last summer, 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, the people rejected Gov. Riley and his tax hike by a vote of 68% to 32%.

Even in liberal Seattle, voters rejected a tax increase. A 10 cent tax on espresso drinks was proposed to pay for early childhood initiatives. But on September 16, the people of Seattle rejected the tax by a whopping 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, on Feb. 3, the voters rejected the tax increase by a 20 point margin, rather than the 10 point margin a year earlier.

Just about three weeks ago, California voters spoke again. 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%.

And finally, in Nevada and Ohio, petition drives are nearly completed to place repeals of tax increases on the November ballot.

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.

Gov. Craig Benson of New Hampshire faced a less dire situation. But his legislature sent him a budget that increased spending by 8%. So Gov. Benson vetoed that budget, saying such rapid spending growth would force tax increases in the future. The legislature was forced to come back with scaled back spending, and excess revenues were put into a rainy day fund. Gov. Mitt Romney from liberal Massachusetts and Gov. Bill Owens of conservative Colorado also balanced their budgets without tax increases.

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. Those, like me, who follow state budget trends know that 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 predicable, 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.

A well-designed TABOR will limit spending growth to a moderate level of inflation plus population 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.

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 tapped 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 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-taxingtexas2.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

In recent years, two states have passed model TABOR-type provisions.

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 when 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 notice also that despite rebating money back to taxpayers each year, Colorado faced only mild difficulties in 2003 when compared to drastic cuts needed in other states.

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, but 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 Maryland

Using data compiled by the U.S. Census Bureau (www.census.gov/govs/statetax), Chris Edwards of the Cato Institute estimated that, if Maryland had passed a TABOR amendment back in the early 1990's like Colorado did, Maryland would now have a \$960 million budget surplus, not a budget shortfall. Clearly, Maryland's budget problems are a spending problem, not a revenue problem.

In addition, if TABOR had been passed, Edwards estimated that every household would have received a Colorado-style rebate for overpayment of taxes of \$478 per year.

Nearly \$500 per year would go a long way toward making life easier for hard-working Maryland families.

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 last fall. Unfortunately, from a policy maker's perspective, the governor ended up cutting a deal with the legislature to assure quick passage, and that deal undercut the TABOR-like strength of the original proposal. But the idea has been planted, and citizens' groups are promising a ballot initiative to tighten up the spending cap, probably in 2005 or 2006.

A handful of states across the country are also pursuing TABOR and similar amendments. Just this week, the Kansas House voted on such an amendment. As a first attempt in the state, poison pill amendments were attached, and the measure finally failed. But again, a seed has been planted. In Minnesota and New Hampshire, serious proposals are under way as well.

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. Maryland is fortunate to be one of the first states to consider TABOR. If Maryland's leaders have the foresight to approve adopt it, Maryland will position itself as an Eastern Colorado – a dynamic state that attracts the best new businesses, technology and knowledge workers, and rising incomes. Sen. Alex Mooney and Del. Herb McMillan's proposal would put Maryland well out in front of the economic pack.