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THE McCAIN/SAXTON PROPOSAL: A SUPERMAJORITY ANTIDOTE TO WASHINGTON'S PRO-TAX VIRUS

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INTRODUCTION

Last year's budget summit agreement proved how easy it is for Congress to impose higher taxes and spending on the American people. As a result of the Bush-Democrat budget, the tax burden on American workers, families, businesses and consumers now is at an all-time high. Not surprisingly, this record tax burden helped trigger the current recession, just as similar high-tax, high-spending government policies in the 1970s helped ignite the nation's last economic crisis. Violating the budget architects' promises of last year, the higher taxes have not been used to trim the federal deficit. Instead, the higher taxes simply have fueled higher government spending, pushing this year's deficit over $300 billion, up from $220 billion in 1990. This record budget deficit now is likely to prompt calls for a new budget summit and even higher taxes.

What is troublesome is the ease with which Congress last fall imposed on Americans their largest one-year tax hike in history — so powerful is the tax virus which has infected Capitol Hill. It is a virus that ultimately destroys American jobs, competitiveness and economic vitality.

Protecting Taxpayers and the Economy. An antidote for the tax virus is now being offered by Senator John McCain of Arizona and Representative Jim Saxton of New Jersey, both Republicans. Their simple legislative proposal (S. 809, H. Res. 141) would prevent taxes from being increased unless the proposal to do so received 60 percent support in each House of Congress. Such a margin is generally known as a "supermajority." The legislation, stated Senator McCain, would "protect the taxpayers and private economy of this nation against what has become the order of the day in Washington: ever increasing taxes." Added Representative Saxton: "Few actions taken by Congress affect the American public more than a tax increase. It is not a routine action and should require more than a routine majority."

REVENUE RESTRICTIONS WOULD CONTROL FEDERAL SPENDING

Federal spending increases can be financed only two ways, by borrowing the money or raising taxes. Politicians have used both methods extensively, which is why both taxes and the deficit are at record levels this year. As bad as the deficit is today, however, it would be even worse if not for the 1985 Gramm-Rudman-Hollings Deficit Reduction Act. Over the past half decade, Gramm-Rudman-Hollings somewhat slowed spending growth and gradually reduced the budget deficit, especially in comparison to what it would have been had the deficit reduction law not existed. While many of the most important provisions of Gramm-Rudman-Hollings were eliminated as part of last year's catastrophic budget deal, remaining provisions do limit Congress's ability to finance new spending proposals with additional government borrowing.

Gramm-Rudman-Hollings solves only half the problem since new spending still can be financed by raising taxes. Just as installing a sophisticated lock on the back door will not deter burglars if the front door is left wide open, restricting deficits will not guarantee fiscal responsibility if politicians have the option of boosting spending and sticking taxpayers with the bill. Even though the combination of record deficits and a recession in the aftermath of last year's record tax increase provides ample proof that raising taxes is bad fiscal and economic policy, Washington politicians will persist in similarly irresponsible behavior unless restrictions on deficit spending are complemented by barriers to higher taxes.

SUPERMAJORITY REQUIREMENTS TO CONTROL SPENDING

The McCain-Saxton legislation, if enacted, would complement Gramm-Rudman-Hollings. Specifically, it would require 60 percent supermajorities in both Houses of Congress to raise taxes. This would create a barrier to tax-financed new spending, just as existing law is designed to block deficit-financed new spending. In their study "Budget Process and Spending Growth,"[1] former Director of the Office of Management and Budget James Miller and economist Mark Crain, both now at George Mason University, find that in those states that require a supermajority to raise taxes, spending growth slows significantly. This is particularly the case in states that,

1 W. Mark Crain and James C. Miller, "Budget Process and Spending Growth," *William and Mary Law Review*, Spring 1990, pp. 1021-1046.

like the federal government, lack a constitutional requirement that the budget be balanced. In the seven states with supermajority tax hike requirements – Arkansas, California, Delaware, Florida, Louisiana, Mississippi and South Dakota – total state spending and total state tax revenues per capita grew slower than the national average during the 1980s.[2]

Miller's and Crain's statistical test confirms what common sense suggests: restricting politicians' ability to raise money by borrowing or taxing will limit how much money they can spend. If the evidence from the states is a guide, as state experience usually is, enactment of McCain-Saxton could save taxpayers billions of dollars. If a supermajority tax increase requirement was accompanied by legislation restoring Gramm-Rudman-Hollings's fiscal discipline to its pre-budget summit potency, by re-creating mandatory maximum deficit amounts, for instance, Congress would have little choice but to limit spending growth.

CONTROLS ON RUNAWAY FEDERAL SPENDING NEEDED

Limiting federal spending growth is the most important component of a responsible fiscal policy since the most accurate measure of government's fiscal burden on the productive sector of the economy is the overall level of federal spending. Regardless of whether spending is financed by borrowing or taxes, government spending consumes resources that could be used better by individual consumers and businesses in ways that would contribute to economic growth.

Since Ronald Reagan left office, there has been an unprecedented explosion in federal spending. In just two years, federal spending has jumped from 22.3 percent of the gross national product (GNP) to more than 25 percent of GNP. Actual spending has soared from $1.144 trillion in fiscal 1989 to more than $1.409 trillion in fiscal 1991, a jump of more than $265 billion. The budget deficit also has risen dramatically, more than doubling from $153 billion in 1989 to more than $318 billion today.

This spending spree is driving America deeper into debt. The national debt has climbed by $750 billion since fiscal 1989 and is expected to jump by another $750 billion by fiscal 1993. The spending binge is even more disturbing since it is occurring when a major budget component – defense spending – is declining. As a result, the entire increase in total federal spending is fueled by the massive surge in domestic spending.

2 "State Revenue and Expenditure Report" (Washington, D.C.: American Legislative Exchange Council, July 1990). "American Legislative Exchange Council Endorses The Tax Fairness and Accountability Act of 1991," American Legislative Exchange Council press release, April 16, 1991.

TAXES ARE TOO HIGH

Beneficiaries of big government understand that limits on tax increases will translate quickly into limits on spending increases. Thus, any serious effort to limit tax increases can be expected to generate intense opposition among special interest groups accustomed to feeding at the public trough. They will argue that a supermajority requirement will deny policy makers the flexibility they need to raise taxes in an emergency.

The McCain-Saxton legislation, of course, does not bar tax increases. It simply requires that 60 percent of those voting in the House and 60 percent of sitting Senators must agree to a tax increase, a hurdle easily overcome in an emergency. Unless there is a genuine emergency, the federal government can live comfortably within the means provided by current taxes. Indeed, the following Tax Facts prove that federal taxes are too high, not too low, and that tax increases are economically damaging.

Tax Fact #1 Federal taxes alone consume 19.4 percent of gross national product today, higher than even the high-tax Carter Administration's 19.2 percent average tax burden and sharply higher than the 18.1 percent Reagan level of 1983 and 1984.[3]

Tax Fact #2 Tax Freedom Day, the date on which an average American has earned enough to satisfy annual federal, state, and local taxes, was May 8 this year, three days later than last year and the latest it has ever been.[4]

Tax Fact #3 Federal tax revenues are at an all-time high this year in both nominal and inflation-adjusted dollars.[5]

Tax Fact #4 Ronald Reagan's Economic Recovery and Tax Act of 1981, which cut tax rates sharply, boosted actual tax collections by stimulating economic growth. Revenues soared from $517 billion in 1980 to an estimated $1.091 trillion this year.[6]

3 Office of Management and Budget, *Budget of the United States Government, FY1992*; *Historical Tables* (Washington, D.C.: U.S. Government Printing Office, 1991).

4 Paul Merski, "Special Report," Tax Foundation, Washington, D.C., April 1991.

5 Budget of the United States Government, *op. cit.*

6 *Ibid.*

Tax Fact #5 Federal tax revenues have grown by nearly 30 percent more than needed to keep pace with inflation since 1980. In constant fiscal 1982 dollars, tax revenues have climbed from $611.7 billion in 1980 to an estimated $790.7 billion in 1991.[7]

Tax Fact #6 White House-Congress budget "summits" occurred in 1982, 1984, 1987, 1989 and 1990. Each time, taxes were raised ostensibly to reduce the deficit. Each time, however, the deficit rose the following year.[8]

Tax Fact #7 A study by the Joint Economic Committee found that every dollar of new taxes in the post-World War II period spurred $1.58 of new spending.[9]

Tax Fact #8 Supply-side economists who warned last year that tax increases would reduce tax revenues by harming the economy have been vindicated. This January, the Congressional Budget Office estimated that tax revenues in the 1991-1995 period will be $62 billion lower than their projection last July before taxes were raised.[10]

Tax Fact #9 As recently as 1948, a family of four at the median income level paid 2 percent of its income in federal taxes. The same family now pays 24 percent of its income to the federal government.[11]

Tax Fact #10 Every one percentage point increase in the tax burden as a share of GNP reduces economic growth 1.8 percent and reduces employment 1.14 percent.[12]

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7 *Ibid.*

8 *Ibid.* and Paul Merski, "A Decade of Budget Summitry," Tax Foundation *Issue Brief*, June 1990.

9 Richard Vedder, Lowell Gallaway and Chris Frenze, "Federal Tax Increases and the Budget Deficit, 1947-1986," U.S. Congress, Joint Economic Committee, 1987.

10 Congressional Budget Office, *Economic and Budget Outlook, FY1992-1996* (Washington, D.C.: U.S. Government Printing Office, January 1991).

11 Robert Rector, "Family Tax Relief," The Heritage Foundation, forthcoming.

12 William C. Dunkelberg and John Skorburg, "How Rising Tax Burdens Can Produce Recession," Cato Institute *Policy Analysis*, February 21, 1991.

CONCLUSION

The record high tax burden in America already has damaged the economy and placed an unfair burden on American workers and families. Yet special interests in Washington already are clamoring for even further tax increases to fund further expansion of the federal budget, putting America's economic future in doubt. Warned an *Arizona Republic* editorial supporting a supermajority requirement, "The nation's economy simply will not be able to grow its way out of the present recession so long as Washington confiscates one-fifth of the nation's wealth. When state and local taxes are included, the total government seizure rises to about 33 percent. No economy can prosper when that much capital is diverted from the private to the public sector."[13]

Winners and Losers. To protect the economy from the continuing damage of new taxes, enactment of taxes must be made more difficult. Instead of the simple majority needed to pass other legislation, tax hikes should require at least a supermajority because of the havoc higher taxes can create for families and businesses. In the seven states which require supermajorities, ranging from three-fifths to three-fourths to raise some or all taxes, spending and taxes have increased slower than the national average. Perhaps the most compelling evidence that a supermajority is needed in the national level is that the McCain-Saxton proposal's three-fifths requirement would have been sufficient to block last year's catastrophic budget agreement. The losers would be Washington's big spenders and bigger bureaucracies. The winners would be America's economy – which would grow and create new jobs, new products and new opportunities.

13 "The McCain Solution," *The Arizona Republic*, April 28, 1991.