



## INTERVIEW

## Grover Norquist, President of Americans for Tax Reform

By Jasper L. Cummings, Jr. and Alan J.J. Swirski\*

**Authors' Note:** Grover Norquist is President of the D.C.-based Americans for Tax Reform. We interviewed him eight years ago in this column. Since that time his organization has continued to strongly influence the public debate on tax reform.

**Q** In 2003 one of your primary goals was a flat tax, but you said at that time that only you and Dick Armey were for it and there was no political movement. Since then Mr. Armey has been involved with the Tea Party movement, as has your organization. Is there now a viable political movement seeking a flat tax, who makes up the movement, and what prospects do you see for enactment of a flat tax?

**A** Yes, there was debate shortly after the '94 Republican capture of the House and Senate. Neither the House nor the Senate would pass the flat tax or the retail sales tax, fair tax. This debate missed the point that the Democrats had the presidency and the veto. There was a vigorous debate and it was dysfunctional because flat taxers and fair taxers were insulting each other and arguing. People were mean to Dick Armey because he was a flat taxer. What Americans for Tax Reform said at the time was that our goal is to get to a single rate tax that taxes income one time at one rate, which means you do not tax it at the individual level, the corporate level, the capital gains level and when you die. You conflate it to one tax, either you earn a dollar and the government takes some, or you spend a dollar, the government takes some, but not both. You do not want the government to follow you around all day, taking a bite of the apple every time somebody else touches the apple.

The reason we do not now have a grand debate about the flat tax is that we do not have control of the Senate, and you need 60 votes in the Senate to do radical change. And we do not have the presidency. There is a consensus within the center right in favor of a single rate tax that taxes income one time. Some people like a sales tax, some people like a flat tax, so we have not abandoned the issue, it is now a consensus issue. There is no need now to resolve the question of what type of single flat tax because even on a good day we are ten years away from doing anything. When we get there we can have that conversation.

Absent an overwhelming Republican win in the House or Senate and the presidency, you are not going to reform from a messy progressive graduated income tax and a corporate income tax, and a capital gains and death tax, and shift over to a retail sales tax. It is going to come in stages—you get rid of the death tax, good. You get rid of capital gains tax, good. You go from many rates to few rates. You go from different rates to a narrow band of rates, to a single rate. Then you shift over. So it is going to come in pieces anyway. So I find this “what is the perfect number of angels who dance on the head of a pin and how should you tax them” to be a waste of time.

And we certainly at ATR do not want to offend anyone who agrees with us on the next ten years of progress by second

guessing where you end up on those two issues. So I do believe that if the center right is successful in getting a president, a House and 60 votes in the Senate, then they can reach the goals to reform Social Security, Medicare and to deal with overall spending. If this change occurs, one thing you do is fundamental tax reform. Paul Ryan has commented, at least in private personal conversations, that while his road map deals with reforming pensions, Medicare, Medicaid and the tax code, as long as the Democrats hold the presidency, there is no point.

You cannot safely walk into a negotiation on any fundamental tax reform. You could walk into a negotiation about having expensing. Yes or no. Single issue. Done. How about extending the Bush tax cuts? Fine. But you could not say “tax reform” because nobody would trust either the people walking into the room or what you would come up with in the room. The president and the Democrats in the Senate, have a fundamentally opposite view of what we want to do. So that is sort of where we are—it is on hiatus, not because people aren't interested, but because the votes aren't there to enact it. We do not talk about it a lot because there is a consensus.

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**Q** In 2003, our last interview, you described the need for an annual tax cut. Do you still believe an annual tax cut is needed every year, is it possible every year, and how might that be accomplished?

**A** I do. I not only run Americans for Tax Reform, but I also serve on the Board of Directors of the National Rifle Association, and consciously or not, both ATR and the NRA have a strategy of wanting every state to have a tax cut each year, in order to have a conversation about tax reform. It does not have to solve all of the world's problems, but you want to take baby steps in the right direction. It is the same thing at the federal level. During the eight years of the Bush administration, with all its failures in so many painful zones, they did have a tax cut every year. Some of them were temporary, some of them small, but there was a tax cut every year.

In Florida, for example, every eight years you have a completely new house and senate because of their eight year term limits, then six year term limits for some of the legislators. If you pass tax cuts and people win elections and see that it is popular, but then you do not pass tax cuts for an eight year period, there is a whole new collection of members who have no idea whether cutting taxes is popular, whether it works, or how it is done. You want people practiced. It is the same thing with the Second Amendment—if you pass conceal/carry in one state and then do nothing for 10 years, you have a whole other group of people who might go, “oh, maybe that is unpopular.” But if you pass a slight extension of conceal/carry every year, then all the new people and all the old people learn this is popular, this is doable, nobody yells at me, and people are happy. So you cannot rewrite history and have people go “oh, that is a contentious issue” if they are doing it every year. So yes, an annual debate on cutting taxes is helpful and important.

**Q** We discussed reducing the two tier tax of dividend income in 2003 just before the enactment of the reduced rate for qualified dividends. You stated that one advantage of not accomplishing integration through a corporate level deduction for dividends was that shareholders would not see the benefit and “if you make clear the connection, that is better politically.” Was that true of the qualified dividend tax reduction and do you think it is the best way to eliminate the two tier taxation?

**A** Yes, I do. I think it is easier if you say when you get paid a dividend, it has already been taxed at the corporate level, and should not be taxed again when it goes to the individual. There are more individuals than there are corporations, and if you give the tax deduction credit to the company, it may be economically the same thing, but it is not politically the same thing. You have a broader, more committed voter base in support of 15% or moving it to zero. Having the dividend tax rate at 15% and the capital gains tax at 15%, there was an effort by Congress, the Republican head of the Ways and Means Committee at the time, to have put the death tax at the same percentage rate. So those three would be linked. Then everyone who cares about the death tax, everybody who cares about capital gains, everybody who cares about dividends, would link arms and not want their tax rate separated from the others. We certainly saw the painful cost of not doing that when they separated the corporate capital gains now at 35% from the individual capital gains at 15%. Allowing that to be separated made it more difficult to cut the corporate capital gains rate.

**Q** You discussed in 2003 encouraging President Bush to privatize Social Security. How do you feel about that now?

**A** In January of 2005, Bush had just gotten himself reelected. The Republicans had the House and they had

55 shiny new Republican senators in the U.S. Senate. And I got a call from the smartest person in the White House who said, we are not going to have a vote to personalize Social Security like the Chilean model where everyone will have the option to set up a 401(k), even though that is very sound policy. It polled well then, it polls well now.

I told this person that you cannot enact that because you need 60 votes in the Senate to enact that. What they should have done was say what you are for, hold a vote, and lose the vote when the other team filibustered. And then announce until we have 60 Republican senators, you people will continue to be cheated every year. Rerun through the calculations that every year that we delay personalizing Social Security, every young person loses \$25,000 in asset value because we delayed it that year, and we did not let people start saving for their future. If you have the majority of the House, the Senate and the presidency, and you do not lose things, you cannot make the case for why you need more senators. People would ask why do you need more senators in 2006 ... you did not lose any votes publicly. Instead they started a debate, there were no Democrats who ever came out for reform, even though I was told by the White House—“well, there are six or eight Democrats who have historically been for reforming Social Security.” There were six or eight Democrats who have been willing to cut benefits and raise taxes, which is the Democrats' plan to reform Social Security. But both of those changes make the return to your FICA tax investment lower, both of those make people worse off.

Bush had run for office successfully in 2000 promising never to do that. Not gonna raise your taxes, not gonna cut your benefits. Gonna give you the personal option, the IRA, 401(k) option. They spent six months having imaginary conversations with imaginary moderate Democrats who might reform Social Security. Within weeks they dropped the

personalization, which was the popular issue, and were lusting after cutting benefits and raising taxes. All of a sudden there was zero popular support for Bush's proposal. And I sometimes hear Democrats go "well, nobody liked privatization." Wrong—they did then and do now. If you ask peoples' thoughts, particularly younger people, and particularly if you ask, "would you like the option of a personal savings account," the answer is yes.

But Bush dropped that and went to the known losing position of making you poorer in order to make "the system" work. Our position is: I do not want "the system" to work, I want you to work. I want your retirement to work. I am not interested in making your retirement less valuable in order to make "the system" happy, which is the Democrat approach. They will make "the system" happy, not you. Hey "the system" is fine. It is like, well you know, the bank can be made whole by not paying you high interest rates. "Yeah, but what about me?" "No, we are saving the banking system. We are saving the Social Security system." The modern Democratic party lives in fear that we will personalize Social Security, because if you did and every 18-year-old looks forward to retiring with a million dollars in the bank even if they start with a low income, then every year they will look at the money that has been saved. And every American will care about the stock market and every American will care about the capital gains tax, and every American will care about the corporate income tax in ways that they do not right now recognize that those things affect their economic well being.

So, since the modern Democratic party is made up of trial lawyers, labor unions, and big city political machines, the Democratic party has never had an idea that would make your 401(k) bigger. Instead, they sue the companies in your 401(k) account; they organize strikes against the companies in your 401(k) account; they tax your 401(k). Every idea the Democrats have makes your 401(k) smaller. The Republicans

have dozens of ideas to make your 401(k) bigger. So the Democrats live in terror that everyone will have a 401(k). Therefore, they will do anything and everything to stop that because once you have that, the modern Democratic party is a dead man walking. They cannot function in that world. They will switch over and become the peace party or the weird sex party, or the tree hugger party, but they cannot be the party they are now if every American has a 401(k). End of conversation.

Hence, they are not going to commit suicide for you. So why do you think you can talk them into that? There is that wonderful scene in *Silence of the Lambs* where Hannibal Lector talks the guy in the cell next to him—because he snores—into swallowing his tongue and killing himself. Okay, we were not that good. We could not talk the Democrats into committing suicide. Therefore, privatizing Social Security, personalizing it, moving it into 401(k), is terribly important. It is the only way to make Social Security and Medicare work long term. It is what Paul Ryan's Road Map does. It is the only way to fix and make people better off rather than worse off. But, it takes 60 votes. In the Senate it takes precedence. So all conversations until you get there need to be on the virtues of how to do that and stay away from offers from the Democrats to cut benefits and raise taxes.

**Q Did you notice any change in the need for public support for privatizing Social Security after the 2008 market drop?**

**A** Not really, I mean people do understand that markets go up and down and you would probably want to have several years of general economic growth behind you when you move into this as an option. Certainly, if you pass it as an option, the rapidity with which people take the option is probably a function of how they see the market doing then even though it really matters how it is doing when they retire.

**Q Do you foresee major tax reform in 2011–2012, particularly in the corporate income tax?**

**A** Here are three things that could be like welfare reform for Obama, all on the tax side. Democrats have the veto, Republicans have the House. Each party could filibuster the Senate so nobody can make anybody do anything. And that includes Republicans who cannot make Obama sign bills that are public humiliations of Obama. If he cuts the capital gains tax the headline would be "capital gains tax cut, Democrats humiliated again." If you got rid of the death tax, you would have the same headlines.

But there are three tax cuts that Democrats have historically actually supported in some cases and not opposed. One is expensing, full expensing for business investment which Obama actually put into this last bill temporarily. That would have tremendous economic growth impact. The Bush people put their toes in the water, but everything other than full expensing sounds like you are gaming the system. You know if you have 50% of bonus depreciation, that word "bonus depreciation" just sounds like you were giving somebody something they did not deserve. Expensing means if you spend a million dollars on a machine, you do not pay income taxes on the money because you do not have it anymore. And we do not want to discourage people from buying machinery as that makes people more productive. So expensing is so much more politically defensible, both putting it in, and then almost impossible to take away. If the Republicans put in full expensing for two years, or permanently, and Obama signed it, Obama would stand there at the signing ceremony like Clinton at the welfare reform thing and say "my idea." That is sort of true, because he actually said he was for it.

The other is cutting the corporate tax rate. A number of the liberal groups, and a number of people in the Administration, have said our corporate rate is too high

at 35%. The European average is 25%; this is destructive and not helpful. They thought of cutting the individual rates because they played the politics of envy, but they have not had public debates on the corporate rate. So in cutting the corporate rates, Obama could take the corporate rate from 35% to 30% or 25% and smile at the signing ceremony and everyone would go, “he was always for that.”

And the last one is repatriation—allowing people to bring money back from overseas. The Democrats have actually bitterly opposed that as much as they bitterly oppose welfare reform, but not publicly. So the general public does not know that they were planning on funding most of their new spending by extending the 35% worldwide tax rate to money earned overseas and left overseas as opposed to only hitting it when it came back. So I think that repatriation is something that would actually bring back maybe half a trillion to a trillion dollars flowing back into the country. If I was running for reelection, I would want that to happen sometime the year I was running. Bush, to give you some idea of his ability to miss opportunities, signed a bill to have it happen in 2005.

By the way, Bush never understood the issue, never. I have it from cabinet officers sitting in the room when somebody brought it up and Bush said, “we are against that,” completely misunderstanding what it was. And to give you some idea of how dysfunctional the Bush administration was, nobody had the courage to say “Mr. President, I think you misunderstand the issue. It is an important economic issue.” Even though the vice president got it and several of the other people in the room understood why this was important, nobody challenged it. When Bush made a public error, everybody saluted the error instead of correcting him, which may explain Afghanistan.

### Q What will be the role of the Taxpayer Protection Pledge on the state and federal levels?

A Taxpayer Protection Pledge is the signature project of Americans for Tax Reform. We ask all candidates for federal and state office, governors, presidents, legislators, to sign a pledge, a very short pledge—“I will not raise taxes. I will oppose and vote against all efforts to raise taxes.” In the 112th Congress, 237 members of the House and 41 members of the Senate have signed the Pledge—all but seven Republican House members and all but seven Republican senators. At the state level we have over 1,300 state legislators and 13 governors who have taken the Pledge. In California, every Republican assemblyman and senator—save two—has signed the pledge. It takes a two-thirds majority to raise taxes in California, so we can stop any tax increase in the state. We are having that debate right now. There are 55 pledge takers in Georgia, and somebody came up with an idea for tax reform, which we read as a billion dollar net tax increase. There is reform in it, but it is also a net tax increase. And so we are talking publicly to stop that.

We are involved dramatically in every tax fight at the state level because we are asked, “does this violate the pledge?” I mean, it is never a close call—it does or it does not. We are brought in to judge things. It is not like being the tennis judge who people yell at because maybe the ball was in versus out. But we say that trillion dollar, billion dollar tax increase is definitely a tax increase. And so that pledge has succeeded in branding the modern Republican party as the party who will not raise your taxes. That was not true under Reagan. Reagan had many tax increases after a significant tax cut. It was an increase driven by Democrats insisting on it, but Reagan let it slide. Bush 41 had one tax increase that destroyed his presidency. He had a fairly successful presidency—drove Saddam Hussein out of Kuwait

without getting stuck occupying Iraq for the next decade. He managed the collapse of the Soviet Union without any blood on the floor, but then he raised taxes and people threw him out as a bum. Powerful issue. He won a primary he was not winning when he took the tax pledge and Gore wouldn't. He won a general election where he started down in the polls because he said, “read my lips, no new taxes.” And Dukakis would not say it. And then he threw the whole thing away by raising taxes. And people go, “I get it—take the pledge, win the primary, take the pledge, win the general, break the pledge, lose, keep the pledge, win, done.” And that made an easier sell.

### Q How will considerations of international tax competition be resolved in Congress; will we move to a territorial system?

A This is actually a fourth area of potential agreement with Democrats. The Democrats particularly need to do something for the business community because they spent two years pissing on them. And the business community is very unhappy and very badly damaged by a lot of things they did—a territorial tax system would solve many of the problems that our tax system creates for American businesses that put us at a terrible disadvantage. That is why Anheuser Busch was worth more bought by a European company than owned as an American company. Why? Because of our worldwide tax structure. Anybody who is international at all is greatly disadvantaged by our worldwide tax system rather than territorial. We were going to have territorial because the Republicans were going to pass it in '06 before they lost the House and the Senate, but as I understand it Grassley did not understand it and was against it. Somebody did not bother to tell him who they sell their wheat and corn to from Iowa. And Iowa is part of international trade. And so we almost had it, I believe that was going to be the parting successful tax

code change done by the head of the Ways and Means Committee, Thomas, but it did not happen.

And as well as painfully obvious things that have to happen, I think the Democrats are hoping to trade something like that for massive concessions on something else they want. It could happen in the next two years. It makes too much sense, and now the Democrats instead of being on top of the world organizing it, they are now afraid they could lose everything and they are going to be reaching out to the business community saying “see, we are not crazy. This is the kind of thing we could do.”

**Q** Many states are facing budget crises and cannot print money or borrow their way out of it. What will be the solution?

**A** Reducing spending. The most important project that Americans for Tax Reform is doing this year is making the case that we have a spending problem, not a deficit problem. There is only one way to solve a spending problem—two ways—spend less or grow the economy so that the same size government would increase. It is less expensive. As long as we focus on spending, the modern Republican party is in charge because they know how to cut budgets, and Democrats have no ideas to reduce the spending, none. Republicans have many. Republicans have many ideas on how to grow the economy so that the same level of government is a smaller percentage of GDP and less burdensome—cut the capital gains tax, get rid of the death tax, drown all the trial lawyers in a big paper bag, but you know, there are a whole series of project ideas that would make the economy work better, like deregulation. Democrats have no ideas to make the economy grow faster—none, except spend more money, which does not work, but that is their idea.

If you move from the zone that spending as a percentage of the economy must be reduced, the deficit must be reduced. Now there are two

ways to solve the deficit problem—cut spending. They do not want to do that. Raise taxes—oh, and the *Washington Post* will announce that those two are equally valid ideas but why not start with the tax increase. So the modern Republican party should never leave the zone they completely control and move to the one that they at best have 50% of because the establishment press is making the calls against them in a fight.

At the state level three big things have changed. First, Chris Christie, Republican, in the bluest of states in New Jersey stood up and said, “I am taking on the public sector unions, I am taking them on on spending; and we are never raising taxes.” He made this wonderful quote that we send everywhere about—“you may have mistaken me for some other kind of Republican. I’m the kind that will never raise taxes.” And he has talked the other team into taking \$10 billion of spending plans off the table—\$10 billion. And he lives to tell the tale. I sat with two very conservative state legislators in Pennsylvania a year ago at the beginning of Chris Christie’s fights and they asked what ATR has planned, and they said that they were going to watch and see what happens to Christie and if he succeeds, that is what they would do. If he fails, they’d take a few steps back and see what we might do. And Chris Christie is viewed as succeeding.

Then the Republicans won many governorships, many state legislators. There are 21 states with a Republican governor and a Republican legislature. So in 21 states, there is a guy who wants to be Chris Christie and a state legislature that says “okay, we will help.” As opposed to New Jersey where the Democrats are throwing marbles at his feet and he is still dancing. So we have the successful Chris Christie, and the expansion of the number of potential Chris Christie wannabees. I met with Governor Christie this fall and before the campaign he told me he was out campaigning, and we listed all the

candidates he was for and he said he would not go campaign for a Republican for governor unless they give him an hour or so ahead of the fundraising event, the political event, where he talks about what has worked for him, and how it might work for them. Because he wants to be Johnny Appleseed and not just be a nice guy and elect Republicans. He wants other people to learn from what has worked for him.

One other piece of the puzzle, and I do not know quite how it happened that Americans now know, polling tells you this, it is not just public information, polling data tells you—the majority of Americans understand. That the reality is that the average private sector worker pay with benefits and pensions is making \$60,000 a year, the average state/local worker makes \$80,000 a year—\$20,000 more a year, and the average federal worker makes \$120,000, twice what the private sector makes. If you simply went to pay equity, where people in the public sector got paid what people in the private sector did, you would save about \$400 billion a year, state and local because that is where most workers are, about 16 million government workers are. There are about 100 million federal. You could argue one way or the other the idea that they are harder working, have tougher jobs, and need pay advantages. That’s not an easy case to make, but even if some of that were true, \$500 billion is the overpayment to the public workers now. If you could fix half that problem, it would be significant. If you eliminated that pay differential, you could in ten years save \$5 trillion. You could in three decades get rid of the entire federal debt just by going to pay equity, not cutting a single service, not changing it, not reforming anything, just going to pay equity. It is a big issue. The American people know this—they are mad at these government workers’ unions and the government workers themselves are not happy with the unions.

This is the big project of ATR for the next decade—and that is doing for state and local government pensions what we think what has been done in the private sector already, moving to Defined Contribution plans, and what we need to do for Social Security and Medicare. With what we have done in Utah—thanks to state Sen. Dan Liljenquist, Utah passed a law taking effect July 1st of this year—all new hires in Utah, state and local government workers, will have a Defined Contribution pension benefit. Here is your pay—here's 10% of your pay in a 401(k). When you walk out the door and retire, when you move to Kansas, when you change jobs, when you die, everything we promised you, you have—you take it with you. It is not one of those things where “oh, you did not live long enough for that, sorry, you lost.” But we put it in every year under 401(k) and you can take it and move with it and do anything you want. So, that reform I think you will see sweep the nation over the next decade.

**Q** Many view California's Proposition 13 as the modern revival of the anti-tax movement. It has three parts: (1) capping the tax rate for all taxpayers' property, including business property, (2) disconnecting the tax base from current fair market value by limiting annual increases in value to a percentage of 1975 value, and (3) creating arbitrary differences between taxpayers in valuation based on whether they sell their property. As a result, local revenue dropped and the state began to fund local expenses. Now the state is in a huge deficit position. Does ATR support all three parts of the approach of Prop. 13; is shifting of revenue sources the goal of tax limitation at one level; has Prop. 13 worked out as well as its supporters intended?

**A** Proposition 13 was enacted as an initiative placed on the June 1978 ballot in California. The measure required a two-thirds vote by the state legislature to raise taxes. That has been

replicated in other states like Arizona and Nevada. Proposition 13 also slowed the rate of growth of property taxes by capping both the tax rate and the growth of the value of home and businesses. Total property tax is the rate times the valuation. Growth after Proposition 13 was limited to two percent each year. However, when a property, personal home, or business, was sold the property was revalued based on the current fair market value. This has led, over time, to business property being taxed less heavily than individually owned homes as the homes turn over more rapidly. That creates unhappiness, a sense of unfairness, and was an unintended and

undesirable side effect of an otherwise valuable amendment. The best way to fix this is to eliminate the re-valuation at time of sale. Florida which had a similar challenge has moved to keep the cap on increases of taxable valuation even when a property is sold.

The best way to protect property owners is to give the buyer of a new home a property tax, say \$1,000. That annual tax could only increase three percent each year. The tax on the house/business would not change when the property was sold. This would give property owners certainty and the ability to maintain the value of the property. Tax hikes make a property worth less. ■

