Books

Could All Our Tax Breaks Be Breaking the Country?

How a zealous antitax campaign that went unnoticed by many has altered America’s social, cultural, and political fabric.

By
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|
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Michael J. Graetz ’61GS, the Columbia Alumni Professor Emeritus of Tax Law and an international authority on taxation, discusses his new book, *The Power to Destroy : How the Antitax Movement Hijacked America.*

In your new book, you say that “the modern antitax movement is the most overlooked social and political movement in recent American history.” What led you to that conclusion?

I realized it was overlooked when I started asking people to identify the most important social and political movements of the past half century or so. They’d name the civil-rights movement, the women’s movement, the LGBTQ+ movement, the Christian evangelical movement, the environmental movement, and more recently the MAGA movement. But no one ever mentioned the anti-tax movement, which I believe penetrates every aspect of society. Taxes are at the heart of so many cultural and social movements, but they get overlooked because people think of taxes either in purely personal terms — their own concerns with income or property taxes or Social Security deductions from their paycheck — or as a larger, rather obscure fiscal or economic issue that operates in a separate realm from politics or culture.

An opposition to taxation, as you note in the book, is baked into the nation’s identity; it’s part of our origin story, beginning with the Boston Tea Party in 1773. But you trace the modern anti-tax movement to the 1970s. What happened then?

It started in 1978 with the enactment of Proposition 13 in California, which focused on property taxes. It included a rollback of taxes, a taxation limit of 1 percent of the assessed value of the home or commercial property, which does not get revalued until it is sold, and a requirement that a tax hike be approved by a supermajority (two-thirds) of the California legislature. The bill was promoted quite effectively by an unlikely promoter of anything — a cantankerous seventy-five-year-old right-winger named Howard Jarvis, who’d failed in all his previous attempts to become an important figure in Republican politics. He’d run several times for office and lost, and he’d tried and failed to get enough signatures for earlier anti-tax ballot measures, including one to lower income taxes that was supported by then governor Ronald Reagan. But with Proposition 13, Jarvis finally prevailed.

Why do you think that was the right moment?

There were several reasons. For starters, the economy was in terrible shape. The country was suffering from both high inflation and high unemployment — dubbed “stagflation” — a combination that Keynesian economics had long held was

impossible. In the wake of Watergate and the Vietnam War, many Americans had lost faith in government. And there was a spike in the racial divisions that had long been present in American life. Many Californians complained that their property taxes were paying for “somebody else’s” schools. And the property taxes kept going up, because housing prices in California were skyrocketing. Their houses were no better or worse than they’d ever been, but homeowners were paying more and more in taxes.

It was a perfect storm. Proposition 13 passed, and amazingly its core provisions have survived subsequent voter initiatives and remained intact and untouchable by politicians. And within four years after Proposition 13 passed, thirty-four other states enacted some sort of property-tax limitation or supermajority voting rule.

The official narrative was that it was all about housing inflation, which was out of control and reason enough to spur this “revolt of the haves.” But when you look closely, Jarvis and his allies were extremely skillful in separating the “us who pay taxes” from the “them who don’t pay taxes.” And the “them” carried a distinct racial animus — anti-Black and anti-immigrant. We saw that same dynamic carry over in an explicit way as recently as the 2012 presidential campaign, when the Republican candidate, Mitt Romney, was caught on video telling his wealthy donors that 47 percent of the population would never vote for him because they were takers rather than makers — people who were “dependent upon government” and who “pay no income tax.” That is just one example of why I insist that taxation issues are cultural issues.

The growing momentum of the anti-tax movement was also helped along by the evangelical movement. It was fascinating to read about the way evangelists like Jerry Falwell exploited cultural issues to protect the tax-exempt status of the racially segregated religious schools they’d begun operating after the *Brown v. Board* decision of 1954.

These private schools were integral to the massive resistance to integration efforts in the South. It wasn’t until the early 1970s that courts finally decided that the so-called segregation academies were not entitled to deductible charit-able contributions or tax-exempt status — which were these schools’ financial lifeblood. For many complicated reasons, the schools managed to ignore the regulations for more than two decades after the *Brown* decision. Finally, in 1978, during Jimmy Carter’s administration, the IRS came out with a much tougher rule that outraged

the evangelicals: for the first time, a private school had to do more than merely *say* it was open to anyone of any race. There actually had to be students of different races enrolled in the school. Reagan ran for president in 1980 promising to reverse the IRS position, making him the first Republican presidential candidate to garner important support from Christian evangelicals. That was a turning point. It spurred the Moral Majority into existence.

Michael J. Graetz

Can you remind readers what the Moral Majority was and why it became such an important force during the Reagan era?

The two main Republican operatives who were instrumental in persuading Falwell to launch the Moral Majority were Paul Weyrich, an important socially conservative political operative who cofounded the Heritage Foundation in 1973, and Richard Viguerie, who was really the genius behind the financial success of the Republican Party, because he introduced the highly effective method of direct-mail solicitation to political fundraising (which now has morphed into e-mail and text solicitations). Weyrich and Viguerie were both devout Catholics and passionately antiabortion, and Viguerie in particular saw evangelicals as an untapped growth area for conservative causes. After the 1973 *Roe v. Wade* decision, the two men tried to enlist Falwell and

the evangelicals to enter politics on the abortion issue but failed. At that time — hard as it is to believe now — southern Protestants thought of abortion as a "Catholic matter" and had no objections to it in cases where the mother's mental or physical health, broadly defined, was threatened. And Falwell was leery of getting into politics, because he thought it might dilute his effectiveness as a religious figure. It was only when the Carter administration got tough about denying tax-exempt status to segregated Christian schools that Falwell decided to sign on to the idea of a Christian evangelical organization focused on conservative issues.

Of course, Falwell couldn't come out and say that the Moral Majority is designed to keep private schools segregated and funded by tax advantages. So he talked about a whole series of social "problems" that Christian evangelicals were worked up about: people cohabiting without benefit of marriage; the Equal Rights Amendment [ERA], which was then before the states for ratification; the rampant spread of what evangelicals saw as the evils of feminism, communism, pornography, and homosexuality. But abortion was not one of their issues. Until it was. And it all started with the desire to avoid taxes.

It's interesting to imagine how the abortion issue might have evolved if there'd been no tax incentive for the segregated schools and if the evangelicals had stayed out of it.

It does make you wonder. But Weyrich and Viguerie weren't the only Catholics who influenced them. Evangelicals were very much opposed to the ERA, and Phyllis Schlafly, who led the STOP ERA movement, was also a devout Catholic — and as such, fiercely antiabortion. So there was overlap between Schlafly and the southern Protestants in their opposition to the ERA and the women's movement, which considered the right to abortion one of its fundamental principles.

***The Power to Destroy* is filled with colorful, if often baffling, personalities who somehow come to wield extraordinary power despite never holding public office. Among these is Grover Norquist. Who is he, and how did he achieve such prominence?**

Grover Norquist, who founded a not-for-profit organization called Americans for Tax Reform in 1985, was once described by Newt Gingrich as the single most effective conservative activist in the country. Norquist's intense dislike of taxation was formed, he says, during family outings to the local Dairy Joy when he was a child. His

father would take one lick from Grover's ice cream cone and say, this is the federal tax. He'd take another lick and say, this is the state tax. A third lick was the city tax. This left a deep impression on young Grover and set the stage for his lifelong anti-tax zealotry.

Norquist became most famous for his anti-tax pledge, introduced in 1986, which he managed to get Republican candidates at all levels — presidential, gubernatorial, and legislative on both the federal and state levels — to sign. The pledge calls for the candidate to promise never to vote for tax increases, regardless of the economic or fiscal circumstances. Never ever. The pledge even bans closing a tax loophole without reducing taxes elsewhere. And the number of people who've signed is stunning: more than 1,800 elected Republican officials, including forty-two current Republican senators, eighteen governors, and 191 representatives. After first refusing to sign the pledge, George H. W. Bush finally capitulated in his 1988 presidential campaign, telling Americans in a campaign speech, "Read my lips: no new taxes." When, as president, Bush was forced to retreat from that promise, he arguably doomed his chances for a second term.

The other part of Norquist's brilliance was that he understood the importance of creating coalitions that could advance legislation at both the federal and state levels. In 1993, he began convening what were famously known as his "Wednesday meetings," first in DC and eventually in statehouses around the country, where he gathered Republican political operatives, think-tank types, and various other right-wing ideologues to discuss how to make government go away. He understood that being anti-tax was the one position that everybody in the Republican coalition agreed on. That was the glue, and Norquist was the enforcer. He made sure that nobody ever lost sight of his movement. He believed that if you win the tax issue, you win all issues.

"*The American people don't realize it and don't feel it, but all this interest they're paying on the federal debt is a kind of secret tax.*"

You tackle an interesting paradox in the book: the so-called "death tax" — a.k.a. a tax on the estates of wealthy people — is largely opposed, even by lower-income Americans who have zero chance of accumulating enough money for their heirs to be subject to it. What's that about?

It’s complicated, but basically, in rebranding the estate tax as a “death tax,” Republicans very effectively put the undertaker and the IRS side by side. Death and taxes, as Ben Franklin noted, go together, and the Republicans exploited the connection, telling stories of hardworking everyman entrepreneurs who’d died unexpectedly, leaving huge estate-tax bills. An eighty-three-year-old Mississippian named Chester Thigpen, a grandson of slaves, testified at a congressional hearing in 1995 to urge the repeal of the estate tax on family businesses, because he feared that his children would otherwise be faced with a tax bill so steep they’d be forced to break up and sell off the tree farm he’d built over many decades of back-breaking labor. Supporters of the estate tax viewed Thigpen as a front for the wealthy donors who were financing the repeal machine, but his heartfelt testimony came to epitomize the evils of estate taxes. Ultimately, of course, his estate did not owe any taxes, because its value was assessed below the minimum to which taxes applied.

And that has always been the Democratic fallback: “You won’t have to pay; estate tax only applies to the top 2 percent.” But that argument does not convince ordinary people. Americans are remarkably optimistic: they genuinely believe they will become wealthy. In a survey that goes back about twenty years, 39 percent of those polled said that they were or someday expected to be in the top 1 percent of wealthy Americans. That percentage might be lower today, given the income inequality and economic insecurity we’ve seen since then, but the polling on the estate tax has stayed steady at about 60 percent in favor of repeal. Of course, that’s also true of other taxes people get asked about — if the pollster doesn’t mention that repeal would mean cutting programs they like, such as Medicare, Social Security, and a strong national defense. Republicans have perfected polling in a way that Democrats have not. That’s a big reason the anti-tax movement has been so successful and why even a Democratic president with a Democratic Congress won’t be doing anything soon to raise the estate tax — though merely lowering the threshold at which it currently kicks in (a healthy $13.6 million) would generate billions of dollars in revenues.

You paint a bleak picture at the end of the book when you lay out the hard numbers of the country’s deficit. There is, of course, a school of thought, exemplified by adherents of modern monetary theory [MMT], among others, that deficits don’t matter. I assume that you are not a proponent of such theories?

I am not. The underlying thesis of MMT depends on economic growth being greater than interest rates. That is not the case right now. The deficit is bigger than it has been at any time since the Second World War, and the Congressional Budget Office is predicting interest rates over the next decade, or even several decades, that are higher than economic growth. The income-tax cuts the Trump administration enacted in 2017 are set to expire in 2025, but if they are extended, the cost would exceed $4.5 trillion over the next decade. The interest on the federal debt has become the second-fastest-growing expenditure in the federal budget, outpaced only by Social Security. Debt interest is growing faster than defense spending. Faster than Medicare. And thirty cents on every dollar we pay in interest is going to foreigners. Even MMT has a problem with those numbers. The American people don't realize it and don't feel it, but all this interest they're paying on the federal debt is a kind of secret tax. And the high cost of that is crowding out both public and private expenditures that could help build infrastructure or provide health care for the American public — an aging American public, I should add.

So we need to make some adjustments. The line I always return to was voiced by Herb Stein, a University of Virginia economist who was chief economic adviser to the Gerald Ford administration. In a hearing on the deficit, he said, "If something can't go on forever, it will stop." This simple phrase became famous as Stein's Law. I'm a great believer in Stein's Law. Refusing to raise taxes and instead borrowing our way out of the shortfall can't go on forever. The problem for me right now is that I don't know how it all stops — or when.

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