

The Taxman Cometh

Republicans contemplate breaking their pledge.

By W. James Antle III

POLITICIANS WHO TALK about raising taxes are guaranteed to elicit a backlash. Sen. Lindsey Graham (R-S.C.) has discovered he is no exception to this rule. His idea of funding Social Security reform in part by applying payroll taxes to higher income levels has made him the target of a television ad campaign by the Club for Growth, a potent anti-tax political action committee.

The ad is as tough as it would be if it were aimed at Michael Dukakis. It characterizes Graham's proposal as a "huge tax hike" that would "hit millions of families, wipe out much of the Bush tax cut, and punish small businesses." The announcer concludes by taunting, "Hey Lindsey: You can't help someone save for retirement by raising their taxes." The press release announcing the launch of this campaign quotes a local Republican politician and Club for Growth member as saying, "I would expect a proposal like this from Hillary Clinton, not from a conservative Senator from South Carolina."

The tax revolt was sparked by a seemingly arcane attempt to break the Social Security reform stalemate. Right now only the first \$90,000 of a worker's wages are subject to the 12.4 percent payroll tax. Graham would cut the payroll-tax rate but raise the level of income taxed. The end result would be a net tax increase for some taxpayers.

As is often the case when Republican politicians run afoul of movement conservatives, bipartisanship was the objective. A Social Security bill is unlikely to pass the Senate without the support of

at least five Democrats, who have so far been reluctant to hand George W. Bush a major second-term legislative victory. Graham hoped that by combining personal investment accounts with a higher payroll-tax cap, he might be able to induce a few senators to break ranks. Instead the idea seems to have divided the free-market coalition backing reform and called into question the GOP's commitment to low taxes.

At the outset of the Social Security debate, many conservatives who viewed personal accounts as especially desirable seemed resigned to the possibility that a tax compromise might be necessary to get Congress to pass them. Robert Novak speculated in his syndicated column that perhaps partial privatization "cannot be done without swallowing a lot that is distasteful for conservatives, but it may be worth it." Writing in *National Review*, Ramesh Ponnuru warned, "Whatever emerges from Congress, if anything does, will include provisions that conservatives do not like: perhaps an increase in the progressivity of the payroll tax, or something worse."

Yet when Graham first floated the idea of raising the payroll-tax cap late last year, he was roundly condemned for "negotiating with himself." Criticism of the proposal took on a new urgency in February when President Bush seemed to put the cap on the table, telling a reporter that while he was unwilling to accept an increase in payroll-tax rates, everything else was negotiable, leaving room for higher income levels to be hit with those rates. Novak then reported

that "some Republicans who denounced Graham three months ago have moved closer to him."

Many prominent economic conservatives have jumped into the fray to arrest any such movement. "We don't want this idea to gain any currency," says Club for Growth executive director David Keating. "It's politically and economically poisonous."

Voting for a tax increase is especially politically risky for Republicans, since most of them explicitly promised not to do so during their campaigns. President Bush, 46 senators, and 222 House members have taken Americans for Tax Reform's pledge not to increase marginal tax rates. The organization's president, Grover Norquist, calls Graham's proposal "a betrayal of the taxpayer protection pledge."

A few conservatives dissent from this assessment. The pledge allows legislators to vote to eliminate deductions and credits provided that they are matched with offsetting dollar-for-dollar tax cuts elsewhere. Perhaps the right combination of lower payroll-tax rates and generous personal accounts—which, they argue, are essentially payroll-tax cuts themselves—might be compatible with a pledge not to boost marginal rates. Anti-tax activists counter that nothing with such mitigating factors has been proposed.

But a higher payroll-tax cap is not without some influential supporters on the Right. Syndicated columnist George Will, never one to be "taxophobic," chided Republicans piling on Graham to "grow up." A tax increase that might win

free-market reform of a major entitlement program, he argued, “hardly blurs the distinction between conservatism and Bolshevism.” In fact, by reducing the amount of borrowing necessary for the transition to personal accounts, it might deprive Democrats of one of their most politically powerful objections to reform.

“I like George Will and he’s a great writer,” says Norquist. “But he has the politics of this exactly backwards.” A tax compromise would “completely undercut” the free-market position on Social Security rather than help it.

“It’s hard to see how weighing down Social Security reform with a tax increase will make it more popular,” argues Keating. “When most people hear the words ‘tax increase,’ their antennas go up and they ask, ‘Whoa, what are these politicians up to?’”

Norquist offers a challenge to payroll-tax cap-raisers. “Show me one D that has actually moved over to the other side because of this proposal,” he says. “Not people who are willing to talk about it, someone who actually has come out in favor of personal accounts.” The veteran tax reformer contends such Democrats are nonexistent, with one exception. The Democratic leadership, he says, “is no doubt pleased as Punch by this.” In fact, Norquist fears it will be even more difficult to win Democratic support now that some Republicans are showing flexibility on tax hikes.

The fight over the payroll-tax cap comes at a time of uncertainty for the GOP’s anti-tax image. In March, the *Washington Post* reported that tax cuts have been downgraded on the party’s agenda. White House aides were quoted as saying the objective of any tax-reform bill sought by the administration would be to simplify the code, not to lower marginal rates. Leading House conservatives, such as Congressman Mike Pence (R-Ind.) of the Republican Study Committee, moved quickly to quell the per-

A just completed two-week visit to the Persian Gulf and Turkey reveals that United States foreign policy is truly broken in the Muslim world, but the good news is that while the dislike of America is both broad and deep, the situation is not beyond repair. Elites in the Gulf States and in countries like Turkey continue to identify strongly with the United States, in spite of what they see as persistent American insensitivity and repeated betrayals of principle over the past three years. Arabs and Turks object particularly to the tone of the United States’ assertion of democracy for the region, noting that the American track record is very bad whenever it is called upon to support genuine reform and that the attitude is ultimately patronizing, particularly when senior U.S. officials offer to “help” the locals in their quest for political freedom. Most people in the Middle East support consigning the autocratic rule and anti-democratic practices that characterize the region to the dustbin of history. What they object to is a suspect American administration seeking to guide the process.

The grievances against the United States are legion, ranging from the difficulty in obtaining visas for Arab students to study in America to failures to communicate with allies as equals. As one senior Turkish diplomat put it, “The Bush administration had to work very hard to alienate its close ally Turkey, but it did so when it did not treat us respectfully.” Once hitherto pro-American attitudes had shifted, the U.S. was reflexively blamed by elites and the public alike for everything going wrong in the region. But the people of the Middle East continue to like Americans individually in spite of their differences with U.S. government policy as they perceive it. It is the policy that is the problem.

Arabs and Turks, ranging from the man on the street to senior government officials and businessmen, stated that they expect little from the United States and noted ruefully they usually get what they expect. They are, however, watching carefully to see if, this time around, the Bush administration means what it says. They identify two issues as central to the introduction of popular rule in the Arab world. The issue cited most frequently was not, surprisingly, the Israel-Palestine conflict. It was Egypt. Arabs know that as Egypt goes, so goes every other Arab state. If the United States is able to pressure its ally Hosni Mubarak to hold elections that could end his own autocratic rule, it would be seen as a pivotal historic event that would elevate the United States in the eyes of most Arabs and might genuinely transform the region. Palestine is, of course, the second issue. The ability of the United States to force Israel to leave the West Bank and bring about the creation of a genuinely viable Palestinian state is undoubted. The will to do so is widely perceived as lacking. An America prepared to address the disparate issues of Palestine and Egypt could produce a political tsunami that would, *inter alia*, eliminate many of the root causes of Islamic terrorism.

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