

Bushonomics 101: Using Taxes as The Ultimate Disciplinary Tool

By Warren Rojas – warrenr@tax.org

Although critics may decry his methods and challenge his fiscal vision, Capitol Hill observers say President Bush has taught Washington at least one firm lesson in cowboy capitalism: Stick to your guns on taxes and eventually everyone will fall into line.

Heading into the homestretch of his first term, Bush has helped orchestrate passage of three major tax initiatives — the \$1.35 trillion Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, the \$42 billion Job Creation and Worker Assistance Act of 2002 (Stimulus IV), and most recently the \$350 billion Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 — during a tumultuous economic period.

Although the nation has spiraled from a \$5.6 trillion, 10-year budget surplus to a projected \$1.8 trillion shortfall, and the economy continues reeling from the September 11 terrorist attacks and two corresponding military campaigns, Capitol Hill observers of all political stripes claim Bush has managed to keep Republicans, Democrats, and even business lobbyists in check by demanding total fealty to the administration's tax slashing agenda.

In a series of exclusive interviews with Tax Analysts, former lawmakers, tax activists, and economists weighed in on Bush's legislative successes to date — with some pointing to the administration's policies and leadership as the impetus behind the recent tax wins, while others maintain that the conservative seeds of change were planted decades ago.

Climb Aboard — or Else

Former House Majority Leader and Citizens for a Sound Economy Cochair Richard K. Armey said the president's legislative prowess stems from equal parts political clout and economic vehemence.

"It begins with the fact that he is the president and he is very popular," the fellow Texan said. Armey added that it helps that Bush doesn't make "bold pronouncements" about his impending tax goals — a strategy he said was favored by former House Speaker Newt Gingrich and House Majority Leader Tom DeLay, R-Texas — as much as he rolls out ideas as they come.

"He just says 'It's time to have one [a tax cut], so let's do one,' and everyone pretty much gets involved," he said.

According to Armey, another reason Bush has managed to muscle his broad-reaching tax agenda through the narrowly divided Congress is because he never veers from his original course — no matter what people throw at him.

"This president doesn't blanch. He really doesn't leave you much choice," he said of Bush's dogged commitment to tax reduction. "And to a huge extent that carries the day for him." He noted that the 2001 tax push was successful because Bush rebuffed Democrats and Republicans alike — including Armey himself — to block any drastic retooling of his campaign blueprint.

'This president doesn't blanch. He really doesn't leave you much choice,' Armey said of Bush's dogged commitment to tax reduction.

"He pretty much set his course and wasn't moving from it," Armey said, noting that lawmakers tossed out a slew of different tax-cutting prescriptions only to be turned away by a resolute White House. And Armey said he believes Bush has subsequently applied that tax strategy to force lawmakers to either climb aboard each White House tax train or risk getting run over by the next one.

"Most of the people right now don't want to argue with him," Armey stated. "But it's more the strength of the issue coupled with an assertive president than anything mystical."

Americans for Tax Reform president and Bush ally Grover Norquist said the administration's annual tax cutting campaign has given everyone "an incentive to play ball."

"Once that happens, your job is to support that bill so you are seen as a cheerful player," Norquist said, adding that the Republicans' virtually seamless antitax stance has helped galvanize the party and insulate any legislative efforts from being torn apart by corporate dissidents — a problem he says derailed Ronald Reagan's 1981 tax offering.

"We all work together against the other team," he said of today's tax-cutting gameplan. "And if yours happens to move now, mine will come later. So that has made everyone play with much less sharp elbows and a willingness to work together."

According to Norquist, Bush has scored — and will continue to score — on the tax front because of three pivotal dynamics:

- the adoption of (at least) one major tax cut each year;

- abolishing the practice of *tax jockeying*, or cutting taxes for “A” while raising them on “B”; and
- the burgeoning investor class.

The annual tax cut strategy means “there’s a lot less panic” that the next tax bill will be the last, Norquist said, particularly since he believes Republicans will likely control Congress for at least the next decade.

“It sends a message of ‘Calm down. We’ve got time. We can do this together,’ to Congress and K Street alike,” he noted.

Similarly, Norquist said that moving from tax shifting to “pure tax cuts” had been “hugely helpful” in getting Republican lawmakers to sing from the same fiscal hymnal. It also helps, he estimated, that investment savvy taxpayers are now vying to join the chorus of corporate tax supporters.

“When the president started talking about dividend tax relief, a lot of people looked around and noticed, ‘Hey, that’s me,’” he quipped. “So all of them can be allies rather than competitors.”

Conversely, Brookings Institution senior fellow and Tax Policy Center Codirector William G. Gale congratulated Bush for masterfully keeping Congress at bay. But he hinted that the president’s “all stick, no carrot” approach had more to do with his running tax tally than any substantive fiscal understanding.

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“The administration deserves a lot of credit for achieving the policies they want to achieve,” he remarked. “Although the answer might be more in the political realm than in the economics.”

According to Gale, swift enactment of EGTRRA came as no real surprise given the surplus projections and that it came during Bush’s initial honeymoon period with Congress. He maintained that the worker relief bill was similarly justifiable.

“Congress felt that they had to do something after 9/11,” he said, adding quickly, “But 2003 is more of a mystery to me.” He asserted that JGTRRA was a true legislative anomaly — particularly since Bush led that charge with the untested dividend income tax cut.

“The administration took an idea that had no political legs — the dividend exclusion, which I don’t think anyone was even talking about last

year — off the shelf and rammed it through,” he said, adding, “Politically it was pretty amazing.”

Gale noted, however, that while Democrats continue to fight against most of the administration’s tax priorities, their voices go largely unheard. “What can they really do?” he offered. “They’re a minority party in two houses.”

A Lesson Learned

Former House Ways and Means Committee Chair and PricewaterhouseCoopers senior policy adviser Bill Archer said Bush should thank the litany of tireless revenue reducers who came before him for setting the tax-friendly stage of politics today.

“It is very interesting to see the chemistry that has come about on tax relief,” he said of the current affinity for broad-based tax cuts. “[And] I think they clearly began to take shape and come in vogue with Reagan.”

Archer suggested that both Reagan and Jack Kemp laid the foundation with their early 1980s tax push. “Reagan, really in a full blown way, made tax cuts a significant tool,” Archer said, adding that Bush was following “pretty much” in those footsteps on the tax front.

According to Archer, the \$749 billion (over five years) Economic Recovery Tax Act of 1981 (P.L. 97-34) Reagan signed and the string of tax increases that followed were sparked by the fact that then-House Ways and Means Committee Chair Dan Rostenkowski, D-Ill., tried to lure Democrats back to his own tax plan by sliding into a bidding war with the new president.

“That produced a bill with overreaching consequences,” he said of the 1981 tax act. The GOP’s tax-cutting zest then “went into a lapse” under the watch of President George H. W. Bush, Archer said, because the then-Democratic Congress coerced Bush the elder into including tax increases in the final 1991 budget agreement.

“They wanted to embarrass him,” Archer asserted.

Cato Institute fiscal policy director Chris Edwards suggested that Bush has greatly benefited from the nationwide swing to the right and has harnessed that momentum by keeping lawmakers focused on taxes.

“The tax cut is a central thing that keeps them together . . . and that has been the key to their success,” he stated, noting that other conservative mainstays like abortion or gun rights are clearly more divisive than trimming taxes.

According to Edwards, Bush has repeatedly triumphed in the face of congressional adversity by mining a pair of fundamental conservative values: plugging major holes in the tax code and

pursuing the Republican's age-old "starve the beast" mentality.

Edwards noted that because most Republicans wanted to end the double taxation of dividends, while social conservatives decry things like the so-called marriage penalty and business-minded lawmakers loathe the estate tax, the best way to bring everyone together is to reach into every corner of the party.

"There are problems in the tax code and you want to solve them," he said of the administration's multifaceted tax approach. At the federal level, Edwards added, "cutting taxes seems to work where outright elimination of the tax code gets stuck."

Meanwhile, Archer maintained that the political backlash from former President Bill Clinton's 1993 tax increases ushered in the Republican takeover of Congress and made tax increases less attractive to the reeling Democrats.

"I think it was a major factor in our getting the majority in 1994," he said. "And I think it was a very sobering event for them [Democrats] politically."

Archer estimated that the leftover sting might have helped persuade the 12 Democrats who ultimately stood with Bush during the 2001 tax fight to cross party lines. "Clearly there were an awful lot of Democrats who realized the 1993 mistake," he said.

Similarly, Armev argued that Democrats signed on to EGTRRA "because they thought it would help them get reelected. And they weren't going to get caught on the wrong side of the tax cut."

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Norquist saw the same. "Democrats join in because it's an inevitability," he said of the tax thrust being wielded by the solid GOP majority.

On the other side of the ledger, Archer said that while present-day Democrats might be willing to debate the substance, size, or direction of any proposed tax relief, they rarely appear willing to "step up to the plate like Clinton did" and sponsor an overt tax increase. "You don't hear any Democrats who now say 'Let's raise taxes,'" he said.

Edwards concurred, stating, "Democrats have figured out that there's never any advantage to be for a tax increase." He suggested that although

Democrats might privately support raising taxes "they're not going to campaign on it," because the concepts of fiscal discipline and budget balance lack the political weight they seemed to carry just a decade ago.

No Turning Back

Tax exuberance aside, some believe the continuing economic uncertainty could undermine Crawford's favorite son as he heads into the 2004 election.

"I don't think he can point to 9/11 anymore," Gale said of the administration's stubborn reliance on the terrorist attacks as a source of fiscal instability. "In the interim, we've had two [major] tax cuts and a series of interest rate cuts from the Fed," he said.

Gale urged Democrats to drop the deficit rhetoric and to highlight for taxpayers the indirect effects of gutting the Treasury.

"By 2004, Bush will, for better or for worse, be seen as the responsible party," Gale added. "Certainly four years is long enough to see the effect of things."

Noting that "it's hard to get anyone excited about accounting stuff," Gale urged Democrats to drop the deficit rhetoric and to highlight for taxpayers the indirect effects of gutting the Treasury — such as reduced government assistance, the disappearance of federal programs, higher state and local taxes, and overall benefit cuts.

While acknowledging that Bush could face some tough questions on the deficit down the road, Edwards suggested that because an economic turnaround is "inevitable" at this point, Bush stands poised to get credit for any fiscal recovery — whether his tax cuts worked or not.

"It is very difficult to pinpoint the causes or consequences of economic action," he suggested, adding that so long as mortgage and other personal lending rates remain low "it will be hard to sell deficit fears."

Norquist cast aside any deficit worries, labeling the deficit figure an "uninteresting number" that was unlikely to spark a Democratic resurgence on Capitol Hill.

"Republicans lost elections for 30 years on that issue. Democrats can have it for the next 30 for all I care," he said, adding, "The real concern is federal spending growth."

A more cautious Archer said the lingering war commitments have certainly muted concerns about the "dicey" deficit issue — but stressed that

Republicans have always been unapologetic about fully funding domestic priorities like defense spending.

"Certainly the president is not cavalier about deficits," he said. "[But] we must defend the American people today and that requires resources."

Archer said the string of interest rate cuts by the Federal Reserve Board has staved off any public worries about the fiscal forecast, but warned GOP leaders against abusing this short-term free-pass from the public.

"We can sustain the deficits we have at this time . . . but eventually it will hurt the economy," he stated, noting that Bush could face an uphill swim if voters see him as the "purveyor of interminable deficits."

Edwards added that the avalanche of sunsets, phaseouts, and staggered delivery devices Republicans have sprinkled throughout EGTRRA, JGTRRA and every tax bill in between should yield "constant, never-ending tax fights" on Capitol Hill.

"It's just going to be endless," he said of the fiscal sparring up ahead. Edwards noted that the fiscal manipulations in each successive tax bill appear "crazier" than the last.

"They basically have to just 'shoehorn' everything in," he said, "And I just don't see anyway around that anymore."

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Looking to exploit any legislative loophole possible, Norquist said he expects to see up to three major tax bills this year and the culmination of Ernest Christian's "five easy pieces" plan — a piecemeal reform strategy achieved by scrapping the estate tax, moving to full business expensing, unbridling both individuals and businesses from the alternative minimum tax, whittling down individual tax rates, and maximizing tax-free savings opportunities for all — within the next decade.

"Within 10 years, we'll get them all," he said of the ambitious tax coup. "But they are all projects that take awhile."

In the meantime, he predicted, Bush would continue hacking away at the code with more mainstream tax recommendations. "Sometimes it will be bigger than others and sometimes the focus will be different," Norquist said. "But they will keep coming."

Armev echoed Norquist's positive read, stating, "As long as the public believes that the only way to close the deficits is to the grow the economy and that the best way to grow the economy is to cut taxes, then he's [Bush] got a shot at another tax cut." ■

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