



# tax notes<sup>SM</sup>

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## REPUBLICAN ANTITAX POLICY

By Sheldon D. Pollack

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*We need tax relief now. In fact, we need tax relief yesterday. And I will work with Congress to provide it.*

— President George W. Bush (2001)

During the 1980s, tax policy emerged as one of the most prominent issues on the agenda of the Republican party. In the 1990s, tax policy (or more properly, “anti-tax” policy) became the outright obsession of the Grand Old Party.<sup>1</sup> If anything, the infatuation is even stronger today. How did it come about that the core issue, the panacea for virtually every economic malady, the very *raison d’être* of the Republican party, is something so mundane as reducing taxes? The “party of Lincoln,” once dedicated to Liberty, the Constitution, preserving the Union, abolishing slavery, and other such grand principles of national government, committed itself to nothing more inspiring than giving the wealthy a nice tax cut.

Cutting taxes is the very antithesis of government action. After all, it is merely the promise of government to *refrain* from doing something (i.e., imposing a tax), rather than an actual affirmative act of government. The latter is what we normally think of as public policy.

<sup>1</sup>References to the Republican party as the Grand Old Party (or GOP) date back to the 1870s and 1880s. The name “Grand Old Party” first appeared in the *Cincinnati Commercial* in 1876, and the abbreviation “G.O.P.” was first used in a story in the *New York Herald* on October 15, 1884.

The antitax agenda of the GOP is *negative* policymaking. At times, not taxing the citizenry may be the most appropriate course of action, but this hardly constitutes the foundation for a domestic policy agenda worthy of a major national political party. Nevertheless, in the 1990s the leadership of the Republican party consciously and intentionally adopted a program of tax cuts as the central domestic policy of the party. Throughout the decade, the GOP displayed a fixation on tax cuts nearly to the exclusion of all other concerns. Even more amazing, the GOP was neither successful in enacting a major tax cut in the 1990s nor in exciting the electorate with its antitax message. As both a legislative program and an electoral strategy, the antitax message played distinctly off-key. Yet the band played on, repeating the same tune over and over.

The question is, how and why did the Republican party become fixated on antitax policy? To answer that question, the substantive arguments for and against such a policy must be considered. Likewise, the merits and shortcomings of the various proposals introduced, and the tax legislation actually enacted during the decade should be examined. The successes and failures of Republican (as well as Democratic) tax initiatives in the 1990s are relevant. But most important is the idea! Republicans committed to tax cuts, as well as the outright elimination of a number of federal taxes, not so much as an instrumental or strategic political issue for winning elections (which they did to some degree), but as an article of faith. Such an ideological commitment seldom arises out of thin air, but rather typically emerges out of the rooted traditions and history of a political party. There is a basic continuity in the ideology of any political party — even in the conspicuously pragmatic, nonideological, nonpolicy-oriented parties of the United States. New ideas may come and go, but there are underlying principles that hold a party together over time. Political parties in the United States are not merely coalitions of convenience that come together for a particular election, and then melt away, only to reform on some other principles for the next election — although the national party organizations in the United States are that to a great extent. If the Republican party in 2001 is not exactly the same political party as the Republican party of 1854, there is nonetheless a consistency in doctrine and interests that has underlain the party throughout its history — certainly

throughout the twentieth century, and certainly with respect to tax policy. Throughout the decades, there has been a remarkable consistency in Republican doctrine with respect to tax policy.

Antitax sentiments have always run strong within the GOP, although Republicans have historically supported regressive excise taxes, such as the tariff, that generally serve the interests of their constituents. Most important, conservative elements within the party have resolutely opposed the taxation of income and wealth. This sentiment was manifest when the first federal income tax was adopted in 1861 during the Civil War, when an inheritance tax was added in 1862, again when the income tax (which previously had expired in 1872) was reenacted in 1894 by a Democratic Congress, and finally when the modern versions of the income tax and estate tax were enacted in 1913 and 1916, respectively. In the 1920s, conservative Republicans successfully pursued a campaign to significantly reduce income taxes. In other words, hostility to income and wealth transfer taxation has permeated the Republican party virtually since its inception. So the antitax policies of the GOP in the 1990s certainly were no aberration. Nevertheless, there was something unique and extreme in the party's rhetoric and devotion to the antitax cause in the closing decade of the twentieth century. It is this more dedicated (dare I say, fanatical) strain of antitax politics, its numerous manifestations, and how it came to dominate the Republican party in the 1990s that must be addressed.

***Throughout the decades, there has been a remarkable consistency in Republican doctrine with respect to tax policy.***

At the turn of the twentieth century, the credo of the Republican party reflected its long-standing commitment to limited government (antistatism) and resolute opposition to nineteenth century Populism and egalitarianism. By the 1920s, hostility to income taxation was well entrenched within the Republican party, and tax cuts were central to Republican economic policy. These were the bread and butter issues of Republicans that served them well for decades. However, there was a marked transformation of Republican thought during the New Deal of the 1930s. At that time, the party that had dominated national politics for decades (and in the matter of course, made federal tax policy) was suddenly overwhelmed by the Democrats and reduced to perennial minority status. The Republican party, now on the defensive, became a permanent opposition party — generally, in opposition to the new administrative state created during the New Deal, and, in particular, to New Deal tax policy. The other side of Republican enmity toward a strong central government in Washington is a deep and abiding faith in the virtues of state and local government. This is often expressed in the form of high-minded praise for federalism. At times, Republican exuberance for federalism (which, ironically, more closely resembles the states' rights perspective of the Anti-

Federalists of the 1780s) amounts to nothing less than a utopian effort to resurrect state-federal relations of the late nineteenth century — a return to the Gilded Age of the 1880s, as if the New Deal and the nationalization of American political institutions had never occurred.

After World War II, the traditional credo of the GOP expanded to embrace the virulent anticommunism that came to grip the “right wing” of the Republican party. In the 1920s and 1930s, strong antagonism toward communism was commonplace in the Republican party. However, with the onset of the Cold War following World War II, the anticommunism of the right wing overwhelmed the party. True, McCarthy was an extremist and not necessarily indicative of the sensibilities of most Republicans. However, he did both reflect and influence the direction of the party's thinking. In the postwar decades, the Republican party adhered to this dual commitment to anticommunism, which dominated the party's thinking on foreign policy, and the curious blend of antistatism and states' rights, which pervaded Republican thinking on domestic policy issues. Antitax sentiment was just one more expression of the latter.

Things changed dramatically by the end of the 1980s. With the collapse of the Soviet Union and its empire in Eastern Europe, the anticommunism that held sway over the right wing of the Republican party weakened. Soon the enemy barely existed, and anticommunism was in retreat within the party. At the same time, the antistatism of right-wing Republicanism was losing its hold on the party. After all, years before Richard Nixon had declared himself (and by implication, every other Republican) a Keynesian, and even the most successful conservative president in 50 years, Ronald Reagan, failed to reduce the size of “Big Government” in Washington during his two terms in office. Reagan had boldly proposed abolishing several cabinet-level departments — most prominently, the Departments of Energy and Education. But today, long after Reagan has left office, these and a host of other clientele agencies flourish in Washington as a veritable tribute to the resiliency of the modern bureaucratic interest-group state.

After Reagan, the very idea of dismantling the post-New Deal state no longer seemed feasible, or what is more important, even desirable to most Republicans. Republicans merely wish to use the state to preserve and protect *their* interests and constituents, as opposed to those of the Democrats. Case in point: one of the first official acts of George W. Bush, the self-proclaimed “compassionate conservative,” was to *create* (not dismantle) a new government agency — the White House Office of Faith-Based and Community Initiatives. Apparently, even voluntary charitable and religious organizations now need to be funded and organized through their own government agency under the direction of the Republican administration. Such developments have forced those on the right to recognize the limited possibilities for reducing the size and scope of the federal government. William F. Buckley, one of the most thoughtful conservative thinkers of the past 50 years, now admonishes his fellow conservatives to

comprehend “that certain fights we have waged are, quite simply, lost.”<sup>2</sup> To put the matter bluntly, the New Deal is over, Big Government in Washington cannot be abolished, and conservatives know it.

***If cutting taxes was a recurring and omnipresent theme in the Republican creed of prior decades, the ‘new’ conservative Republican party of the 1990s committed itself wholeheartedly to the antitax agenda.***

So by the 1990s, the two most fundamental principles of postwar American conservatism no longer moved the Republican party faithful, to say nothing of the electorate. The ideology of the Republican party narrowed in the early 1990s as anticommunism became a moot issue and antistatism a lost cause. What was left? While so-called New Right social conservatives devoted themselves to their activist “pro-life” (i.e., anti-abortion), pro-family agenda, the old-fashioned right wing of the Republican party (what used to be referred to as the “Old Guard”<sup>3</sup>) concentrated its efforts on repealing a good deal of the tax system that supports the national government in Washington. Hostility to federal taxes became an end in itself, the driving force of the right wing of the GOP, and the right wing itself came to dominate the Republican party. This was largely due to a shift in demographics, as the voting strength and party base of the GOP shifted from its traditional strongholds in the Northeast and Midwest to the nation’s new booming regions in the West and Southwest. This is now the stronghold of the Republican party. If cutting taxes was a recurring and omnipresent theme in the Republican creed of prior decades, the “new” conservative Republican party of the 1990s committed itself wholeheartedly to the anti-tax agenda.

From a purely rational perspective, this commitment of the leadership of the Republican party to an agenda of tax cuts makes perfect sense *if* the issue can be exploited by the party for advantage in electoral contests. In his 1942 classic, *Party Government*, political scientist E. E. Schattschneider defined a political party as “first of all, an organized attempt to get power.” Schattschneider associated power with “control of the government.”<sup>4</sup> It should be added as a corollary that in the United States, it is only through elections that political parties can achieve legitimate (and necessarily

temporary) “control” of the government. The Republican party is such an association organized around the goal of winning elections to take temporary control of the government. Certainly, that was the intention of the founders of the Republican party who came together in 1854 in Ripon, Wisconsin, and nothing has changed since then. The reason that the GOP or any other political party seeks to win elections is that there are significant benefits to be derived from so controlling the government. This involves more than just patronage, although patronage is still a very important part of the equation. Winning an election also means that the victor gets to govern — or more accurately, attempt to govern — and that means imposing one’s principles, whether grand or mundane, on the nation.

Of course, things are never so simple in politics. Seldom, if ever, does a political party in the United States succeed in imposing its will on the nation. The Roosevelt faction of the Democratic party in the 1930s perhaps came the closest of any American political party to achieving that status. But the majority party does typically set the agenda, and thereby influence the direction of public policymaking — certainly, more so than the losing party. In short, if a political party’s goals include the exercise of power (and not all parties have that as a goal — witness most third parties), then winning elections is an absolute necessity. And winning elections, as opposed to merely contesting them, requires strategic and instrumental calculations, as well as many compromises regarding the party’s campaign issues. Party platforms become more than just the expressions of the values of the party leadership. They also must express a reasoned calculus for a winning electoral strategy — which means appealing not only to party elites and activists, but also to a majority (or plurality, as it may be) of the voters.

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So the question is, can the deep-rooted commitment of the Republican party to an antitax agenda be viewed as a rational electoral strategy? Does this commitment make sense from the perspective of winning elections and bringing the party to power? Is an extensive program of tax cuts really a rational strategy for a minority party that was dominated for decades by a liberal, populist Democratic party that itself successfully pursued a campaign platform favoring a progressive income tax directed at the wealthy supporters of the Republican party? Or has the ideology of the leaders of the Republican party clouded their vision, impairing their ability to devise a winning electoral strategy, thereby sacrificing electoral victories for principle? To a large extent, the answers to these questions lie in the unique history of the Republican party and the degree

<sup>2</sup>Quoted in *Wall St. J.*, February 2, 2001, A10.

<sup>3</sup>The term “Old Guard” had its origin at the 1880 Republican convention when it was used to refer to the supporters of President Ulysses S. Grant. In subsequent years, the term was used generally to refer to staunch economic conservatives in the GOP — also referred to as the right wing. In the postwar era, the right wing was traditionally associated with anticommunism and free market economics.

<sup>4</sup>E. E. Schattschneider, *Party Government* (New York: Holt, Rinehart and Winston, 1942), 35.

of success of its antitax message in actually winning elections.

From this perspective, it is obvious that Republicans have had their work cut out for them from the start. After all, cutting taxes (especially at the margin) almost inevitably benefits the wealthy few much more than the great majority of the electorate, which is comprised mainly of the middle and working classes. This is because in the United States the wealthy pay most of the income taxes collected by the federal government. For instance, in 1997 the wealthiest 1 percent of taxpayers (those with adjusted gross income of \$250,736 or more) contributed 33.2 percent of revenue raised under the individual income tax, the wealthiest 5 percent (those with AGI exceeding \$108,048) contributed 51.9 percent, and the top 50 percent contributed a whopping 95.7 percent.<sup>5</sup> The flip side is that the bottom 50 percent of taxpayers contributed a mere 4.3 percent of the revenue raised under the individual income tax. Indeed, the share of income taxes paid by the wealthy increased during the period from 1983 to 1997, most dramatically after 1993.

On the other hand, there is no need to feel sorry for the rich, as their share of household income, total net worth, and financial wealth (net wealth excluding houses and autos) is also greatly disproportionate to their numbers.<sup>6</sup> While the rich certainly pay their fair share of taxes, they also own *more* than their fair share of the national wealth. Furthermore, the already unequal distribution of wealth in this country became even more concentrated during the period of economic boom experienced in the 1990s.<sup>7</sup> So while the share of income taxes paid by the wealthy increased in the 1990s, their net after-tax position was considerably better in 1997 than it was in 1983. In other words, it was good to be rich in the United States in the 1990s! This may explain why the wealthy seem so much less

adamant these days (at least in public) in their opposition to government and taxes than the average Republican congressman representing Middle America — the quintessential “man on the make” aspiring to be admitted to the club. Those who are already counted among the nation’s wealthiest individuals usually have the good sense and grace to keep mum.

***While the share of income taxes paid by the wealthy increased in the 1990s, their net after-tax position was considerably better in 1997 than it was in 1983.***

Because a tax cut benefits only those who pay taxes, and because it is the wealthiest taxpayers who bear most of the burden of the income tax, the rich inevitably will enjoy most of the benefits of a major reduction in taxes. The problem for Republicans is that while their tax cut proposals appeal to the wealthiest voters (although certainly not all those who benefit most from tax cuts favor them over alternative policies — witness the February 2001 campaign led by billionaires Bill Gates Sr. and George Soros to *retain* the federal estate tax<sup>8</sup>), there are just not enough wealthy voters to sweep Republican candidates into office strictly on a platform of tax cuts. In other words, playing to a small number of wealthy voters creates an initial problem for Republicans trying to win electoral contests. Absent some manifestation of “false consciousness” afflicting the lower and middle classes (the equivalent of what used to be called “working class Toryism” in postwar England) or incredibly clever marketing by the political operatives (for example, selling the so-called flat tax, which disproportionately benefits the wealthy, under the guise of tax “reform” and “simplicity”), a platform of tax cuts for the rich will be insufficient to carry the Republicans to victory.

Fortunately for the Republican party (and everyone else), voters do not always vote based on a purely rational calculation of economic self-interest. Occasionally, voters are even swayed by arguments and reasoning. And of course, sometimes they do suffer from false consciousness and succumb to clever marketing. At any rate, a platform of tax cuts is *not* a fatally flawed or impossible strategy for the Republican party — as witnessed by the numerous successes of antitax GOP candidates over the decades. It

<sup>5</sup>See *IRS Statistics of Income Bulletin*, Publication 1136, Spring 2000, Table 5.

<sup>6</sup>An excellent profile of the rich (the top 20 percent) and the superrich (the top 1 percent) is found in Edward N. Wolff, “Who Are the Rich? A Demographic Profile of High-Income and High-Wealth Americans,” in *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, ed. Joel B. Slemrod (Cambridge: Harvard University Press and Russell Sage Foundation, 2000), 74-113. The essays in this volume collectively provide a comprehensive picture of the status of the rich in the U.S. For a summary of these findings, see the introductory essay, Joel B. Slemrod, “The Economics of Taxing the Rich” in *id.*, 3-28.

<sup>7</sup>By way of illustration, the top 1 percent owned 32.6 percent of total net wealth and 42.9 percent of financial wealth in 1983, while they owned 35.9 percent and 45.6 percent of the same categories in 1992. Overall, the share of net wealth owned by the top 5 percent increased, while the share owned by everyone else declined during this period. See Wolff, note 6 *supra*, at 77. Studies show that the concentration of wealth in the hands of the rich and superrich continued throughout the rest of the 1990s. See Tom Petska and Mike Strudler, “The Distribution of Individual Income and Taxes: A New Look at an Old Issue,” SOI Research Paper, Statistics of Income Division, Internal Revenue Service (March 10, 2000).

<sup>8</sup>The group, known as “Responsible Wealth,” was organized by Bill Gates Sr. They ran an advertisement in major national newspapers on February 18, 2001, urging lawmakers to “fix,” rather than eliminate the estate tax. Those who signed the ad include Gates, George Soros, Steven Rockefeller, David Rockefeller Jr., Frank Roosevelt, and Paul Newman. While billionaire Warren Buffett did not sign the ad, he was publicly quoted as supporting their goals. For an account of the campaign by the superrich to keep the estate tax, see Paul Gigot, “Fat-Cat Cavalry Rides In to Rescue High Taxes,” *Wall St. J.*, February 16, 2001, A10.

worked for conservative Republicans in the 1920s, the late 1940s, throughout the 1980s, and then again in 1994. It appears to have worked for George W. Bush in the 2000 presidential election, although the outcome there remains to be seen. Indeed, some Republican pollsters profess that running on a platform of tax cuts is the *only* campaign strategy that works for Republicans. So long as Democrats cooperate by constantly raising taxes to finance the ever-expanding array of social welfare programs administered by the post-New Deal state, Republicans have a ready-made issue at hand proposing a new round of tax cuts.

Of course, even when a platform of tax cuts works as a successful campaign theme, actually reducing taxes in office is something else. The income tax is the source of well over half the revenue of the federal government, and a program of tax cuts is neither an easy nor rational strategy for a politician (Republican or Democrat) actually occupying an office in government. Because the enormous revenue raised by the social security payroll tax is dedicated to that retirement/income support program, it is the income tax that supports virtually all the discretionary spending that politicians use to bestow government programs and benefits on their constituents. Politicians typically distribute these goodies to constituents in an effort to cultivate their support and votes in an effort to get reelected — or at least, that is one major theme in the political science literature.<sup>9</sup> So it would be perfectly logical even for those candidates who ran on a platform of tax cuts to downplay or outright ignore the whole question once in office. In other words, while tax cuts may make for a compelling campaign theme, it should not be surprising to see elected politicians (even antitax Republicans) feel the pressure of other incentives and, accordingly, pursue other interests once in office. There is a distinct disjuncture between antitax campaign rhetoric and the political reality of an elected official trying to keep his job.<sup>10</sup> However, this disjuncture most definitely can be overcome.

<sup>9</sup>Political scientists Morris Fiorina and David Mayhew argue that the very same politicians who create government programs and the agencies to run them will rail against the “bureaucracy” in their electoral campaigns in an effort to appeal to the anti-Washington mentality of the electorate. See Morris P. Fiorina, *Congress: Keystone of the Washington Establishment* (New Haven: Yale University Press, 1977), and David R. Mayhew, *Congress: The Electoral Connection* (New Haven: Yale University Press, 1974).

<sup>10</sup>The main theme of my book, *The Failure of U.S. Tax Policy*, is that policymakers use the tax laws for diverse and often conflicting purposes. Among these are raising revenue, as a macroeconomic tool for directing the national economy, as a bipartisan tool for cultivating favor with constituents, and as a partisan tool for implementing party objectives. The use of the tax laws for these conflicting purposes leads to the undermining of the integrity and coherence of the income tax, and increases the gross complexity that already plagues the tax laws. See Sheldon D. Pollack, *The Failure of U.S. Tax Policy: Revenue and Politics* (University Park: Penn State Press, 1996), 9-25.

The most prominent Republican politician who ran a successful antitax electoral campaign *and* managed to implement a program of tax cuts once in office was the former movie star turned politician, Ronald Reagan. To Reagan, the contemporary Republican antitax campaign owes its greatest debt. As president in the 1980s, Reagan laid the foundation for the antitax politics of the 1990s. Reagan’s preoccupation with tax cuts was nothing new in the Republican party — his was just a more successful campaign. Reagan ran on antitax themes and came to the presidency ready and willing to cut taxes. Once in office, Reagan wasted no time presenting his tax reduction plan to Congress. Even with Democrats retaining a majority in the House, Reagan was able to steer his proposal through Congress. This turned out to be the greatest tax cut in the history of the federal income tax. After eight years in office, the 1981 tax cut and the historic legislation that followed, the Tax Reform Act of 1986, ended up as the centerpieces of the Reagan administration’s domestic policy.

***Fortunately for the Republican party (and everyone else), voters do not always vote based on a purely rational calculation of economic self-interest. Occasionally, voters are even swayed by arguments and reasoning.***

To be sure, when Reagan moved into the White House, there were other important political issues on the new president’s agenda besides tax cuts. There was much talk of getting government “off the backs” of American citizens, eliminating whole cabinet offices, and generally cutting back Big Government in Washington as it had evolved since the New Deal of the 1930s. However, it turned out that these bold objectives were not so easy to achieve. Entrenched economic interests and organized political interest groups (many associated with the Republican party itself) resisted the efforts of the Reagan administration to cut back the federal bureaucracy. Only minimal cuts were made to domestic spending, and these were more than outweighed by significant growth in other government departments — most notably, increased spending on the U.S. military. Cutting programs proved difficult, if not impossible, but cutting taxes was politically feasible. As a consequence, overall government spending increased, while tax revenues were substantially reduced during Reagan’s two terms. In the end, the great domestic policy success and legacy of Ronald Reagan (surely the most successful Republican president since Theodore Roosevelt) was reducing taxes for American taxpayers (particularly, those in the highest tax brackets), while leaving the federal government buried under the weight of mounting budget deficits.

After Reagan’s departure from office, his successor was forced to deal with economic reality. Therein lies the irony of Reagan’s success. Tax cuts may provide a winning campaign agenda for a Republican candidate running for office, and with the right mix of political

skill and good luck even may be implemented once in office. However, the economic consequences of major tax cuts take years to be felt, which generally comes *after* the antitax candidate has retired from office. Accordingly, Reagan never did have to face the consequences of his antitax policies. Unfortunately for George Bush, he did.

Confronting mounting deficits and worsening economic conditions, Bush was drawn into an ill-fated budget summit with the Democratic congressional leadership during the summer of 1990. That summit produced an agreement for significant tax increases — this notwithstanding the president's infamous “no-new-taxes” pledge at the 1988 Republican nominating convention in Houston. The 1990 tax increase badly tainted Bush in his 1992 presidential campaign. In particular, his credibility was undermined and his support diminished among conservatives — especially with the antitax wing of his own party. On top of that, Bush's campaigning proved uninspired in his bid for reelection in 1992. The result was a victory for the young Democratic candidate, former Arkansas Governor Bill Clinton.

***While Reagan and his supply-side cohorts stressed reducing income tax rates, they never questioned the legitimacy of the federal income tax.***

When Clinton defeated Bush, four years of divided and stalemated government in Washington ended. Antitax Republicans were dealt a devastating setback. After all, Clinton had expressly campaigned in 1992 on a platform calling for a tax increase for the wealthy (a “millionaire's surtax”) to reverse the tax reduction enacted during the Reagan years. It was not long before the Democrats in Congress followed through on the president's campaign pledge. In a close vote that split strictly along party lines, Democrats pushed through legislation in 1993 that raised taxes for the wealthiest American taxpayers by 20 percent. Would the Republican tax cuts of the 1980s be reversed in only the first year of Democratic rule? It surely looked that way. The antitax wing of the GOP was out of power and repudiated by the American electorate, which apparently preferred a Democrat running on a platform of tax increases over the incumbent “no-new-taxes” Republican president. This was a new low point in the history of the antitax wing of the GOP. At the time, it appeared to signal the demise of what was left of the so-called Reagan Revolution. Democrats in the White House and Congress controlled the decisionmaking for tax policy, and the Republican party was in disarray. Would Republicans suffer the same political fate that they endured during the 1960s and 1970s? Things could not have looked any bleaker for the antitax cause.

Then unexpectedly, the right wing of the Republican party made one of the most remarkable comebacks in the history of American politics. All across the country, Republicans running on their “Contract with America” platform swept Democratic candidates in the Novem-

ber 1994 congressional elections. As a result, the Republican party found itself with a majority in both houses of Congress for the first time in 40 years. Most important, the right wing of the GOP regained control of the party, and its antitax message found new life.

If the antitax sentiment of the Republican party in the mid-1990s was not exactly new, it certainly was more extreme in its expression. In the 1980s, Ronald Reagan had succeeded in transforming “tax reform” (*qua* tax reduction) into a viable, winning political issue for the GOP. But while Reagan and his supply-side cohorts stressed reducing income tax rates, they never questioned the *legitimacy* of the federal income tax. That is where the Republican party of the mid-1990s departed from tradition, for the new party leadership not only called for reducing taxes, but openly questioned the role of federal taxation in a free society — even proposing repeal of the Sixteenth Amendment to the U.S. Constitution to make the point.<sup>11</sup> On this account, the heated rhetoric of the antitax wing of the GOP must be distinguished even from Reagan's conservative philosophy of limited government and tax reduction.

To be sure, Reagan had proposed tax cuts. But what the new conservative Republicans now proposed was more in the order of a would-be fiscal revolution. They envisioned a complete refinancing of the American state. Most important, that refinancing would leave the wealthy with a significantly greater share of their money and the government in Washington with significantly less, permanently restricting the scope and activities of the national government. The federal income tax would be replaced with some less intrusive form of taxation (e.g., a “flat tax,” VAT, or national sales tax), the gift and estate tax would be scrapped, other minor nuisance taxes (e.g., a 3 percent federal excise tax on telephone calls that has been around for more than 100 years) would be eliminated, and the government in Washington would be limited by its own inability to finance the kind of social welfare programs that most have assumed to be legitimate functions of the national government since the New Deal. A new proposed constitutional amendment would mandate a balanced budget and require a special 60 percent majority for any future tax increases.<sup>12</sup> What Republicans came to refer to in the 1990s as “fundamental tax reform” would

<sup>11</sup>Over the years, there have been numerous proposals from Republican congressmen to repeal the Sixteenth Amendment, which declares that: “The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration.” Among those Republicans who have repeatedly introduced resolutions to repeal the Sixteenth Amendment are Bill Archer, R-Texas, former chairman of Ways and Means, William M. Thomas, R-Calif., current chairman of Ways and Means, Majority Whip Tom DeLay, R-Texas, Ron Paul, R-Texas, and Sam Johnson, R-Texas. Gaffly James A. Traficant Jr., D-Ohio, has joined Republican efforts to repeal the tax code and the Sixteenth Amendment.

<sup>12</sup>By only the narrowest of margins, the balanced budget constitutional amendment failed to pass the Senate in 1995 and 1997. The House twice approved the amendment.

be the death knell of the modern social welfare state in America. They never quite came out and said this was their goal, but by so significantly cutting back the sources of revenue of the federal government, this surely would be the result.

As soon as the GOP took control of Congress in January 1995, the campaign against the federal income tax commenced. During the next six years, the Republican majority in Congress battled the Democratic Clinton administration and squabbled among themselves over how to cut taxes. The Republican congressional leadership proposed massive income tax cuts. They also proposed the elimination of other taxes entirely, such as the gift and estate taxes — this without regard to particular economic circumstances or budgetary constraints. At the beginning of the decade, with the economy in recession and the Congressional Budget Office (CBO) projecting decades of massive deficits, Republicans prescribed the orthodox Keynesian formula to stimulate the economy — cut taxes. By the end of the decade, in the wake of an amazing eight-year run of a booming economy that led the CBO to issue new projections of trillions of dollars in surpluses, the GOP still unwaveringly advanced its agenda for tax cuts. Then when the economy slowed at the end of 2000, Republicans again proposed tax cuts as the remedy, once again to stimulate the economy. The coming of recession, just as eight years of boom, dictates massive tax cuts. To antitax Republicans, tax reduction is *always* the appropriate economic policy.

Much the same can be said for Republican presidential candidates. In 1996, Bob Dole ran on an economic program that included a broad-based 30 percent tax cut. In the 2000 presidential campaign, GOP candidate George W. Bush pushed for a 10-year tax cut of some \$1.6 trillion — surpassing what even the most ardent antitax Republicans in the House were then proposing. Since moving into the White House following one of the closest elections in history, Bush has persisted with his plan for a large-scale tax cut. It seems to make no difference to Republicans whether the economy is booming or in recession, whether government was suffering sustained budget deficits or enjoying trillion dollar surpluses. Republican tax policy in the new Age of the Surplus also calls for tax cuts!

In the 1990s, the GOP antitax campaign also took direct aim at the federal agency charged with administering the tax laws: the Internal Revenue Service. Hearings into alleged IRS abuses were conducted. The IRS was ridiculed, reprimanded, and reorganized. Republican members of Congress took to referring to the tax laws as the “IRS Code” — conveniently ignoring that it is Congress, not the IRS, that writes the Internal Revenue Code. They even cast suspicious eyes on social security, the nation’s most successful and costly domestic program. In the new political climate, Republicans proposed radical changes to social security: new methods of financing social security, and even “privatizing” the retirement program. In the end, a Democratic president in the White House, along with a relatively small number of liberal Democrats in Congress, blocked repeal of virtually all of these proposals. But if congressional Republicans lost most of these

political battles in the 1990s, they continued to wage the war. Tax cuts, the IRS, and social security were continually in the news, on the table, and subject to public debate and scrutiny. When their campaign for an \$800 billion tax cut fizzled in 1999, congressional Republicans advanced a new list of discrete, “targeted” tax cuts for married couples, small businesses, farmers, and the parents of college students. Just about everyone would get some tax benefit — just not all at once.

Ironically, the future of the antitax wing of the Republican party became considerably more uncertain following the November 2000 elections. Even with George W. Bush eventually eking out a victory in the electoral college and securing a place for himself in the White House for four years, the electoral outcome could hardly be interpreted as a victory for Republicans or the antitax movement — or even for Bush himself (who lost the national popular vote, for what that is worth). After the election, the GOP retained a slim majority in the House of Representatives, thereby assuring that leadership positions and committee chairs would remain in Republican hands for at least two more years.

However, a number of important figures in the anti-tax movement in the House did not return to the 107th Congress. Most prominently, House Ways and Means Committee Chairman Bill Archer retired after 30 years in the House. Archer was replaced as chairman by Rep. William Thomas of California. A pragmatic moderate on tax policy, Thomas was selected by the Republican Steering Committee over the senior Republican on Ways and Means, Phil Crane of Illinois. Of the two, Crane is much more conservative and committed to the antitax agenda. To appease the party’s right wing, in the opening days of the 107th Congress Thomas announced his intention to “work” with the Bush administration on its proposal for a \$1.6 trillion tax cut. While reassuring, that expression of commitment was a whole lot less than what Bill Archer would have offered.

***To antitax Republicans, tax reduction is always the appropriate economic policy.***

Over in the Senate, Trent Lott of Mississippi returned as Majority Leader. While the Senate ended up deadlocked with 50 Republicans and 50 Democrats (with Vice President Cheney voting in the event of a tie), Republicans retained control of the committee chairmanships in a deal that Lott struck with the leadership of the Democratic party.<sup>13</sup> Later, when tax cut fever swept through Congress, the Senate majority leader declared that President George W. Bush’s pro-

<sup>13</sup>Under the deal, senior Democrats chaired the Senate committees during the opening weeks of the 107th Congress until the inauguration of Bush and Cheney on January 20. Thereafter, Republicans took over the chairmanships. Committee membership was divided evenly between the two parties.

posal for a \$1.6 trillion tax cut did not go far enough! Still, there was no way to deny that the antitax movement had suffered a major setback as a number of notable conservatives were not returned to the chamber. A longtime proponent of tax cuts, William Roth of Delaware, was upset in his bid for reelection after serving 30 years in the Senate. The loss for the antitax movement was mitigated when the senior Republican on the committee, Charles Grassley of Iowa, succeeded Roth as chairman of the Finance Committee. Grassley has been a key player in the GOP antitax movement for two decades, having supported the Reagan tax cuts in the 1980s. On assuming the chairmanship, Grassley immediately announced that while he favored the broad-based tax cuts included in the Bush proposal, he was also willing to accept targeted tax breaks, especially for such items as long-term health care and renewable energy. So the Senate Finance Committee remains in the hands of an antitax Republican. However, one half of his committee is made up of Democrats, most of whom are committed to a very different tax policy agenda.

***The prospects for a new and improved federal tax policy do not look very promising.***

As if Senate Republicans in the 107th Congress do not have enough problems, they face one more dilemma. Their tenuous hold on the Senate hinges on the continued good health of 98-year-old Strom Thurmond of South Carolina, a former Dixiecrat segregationist who switched party allegiances back in 1964. His departure from the Senate before the expiration of his term in January 2003 would likely result in the appointment of a Democratic successor by South Carolina's Democratic governor Jim Hodges. With that the

Democrats would assume the committee chairs and leadership positions in the Senate. As Republican Congressman Tom Davis of Virginia puts it: "When it's a 50-50 Senate, things can change in a heartbeat — anybody's heartbeat."<sup>14</sup> Even the Republican ace-in-the-hole in the Senate, Vice President Cheney's vote in the event of a tie, will not overcome a "change in a heartbeat" that gives the Democrats a 51 to 49 edge in the Senate.

How these changes in Washington will affect Republican strategy in the coming years is uncertain. Most ominous is the closely divided partisan composition of Congress. Given the renewed vitality of the Democrats, it will be difficult for the right wing of the Republican party to achieve very many of its antitax objectives, although it already has begun to impress its will on the legislative agenda. Early on in the opening session of the 107th Congress, Democrats seemed to accept the inevitable — some form of a Republican tax cut would be enacted. But soon enough the Democrats realized that they still have the capacity to shape any Republican initiative and put their own mark on any tax legislation that is enacted. They also may very well have enough votes to block any Republican initiative. If that happens, another decade of tax deadlock could follow. On the other hand, if the Democrats are unable to obstruct the antitax Republicans, a major tax cut will be enacted. That surely will be followed by subsequent tax increases to rectify the economic fallout from another massive reduction in government revenue, and the cycle of unstable tax policy that we experienced in the 1980s and 1990s will continue. Either way, the prospects for a new and improved federal tax policy do not look very promising.

<sup>14</sup>Quoted in *Wall St. J.*, February 22, 2001, A24.

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