

Human Events^{ONLINE}™

Bush 'Open-Minded' on Tax Hike

Posted Feb 18, 2005

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As more than 4,000 conservatives descended on Washington for the Conservative Political Action Conference this week, President Bush greeted them with the stunning announcement that he was "open-minded" to the idea of lifting the \$90,000 cap on income subject to the Social Security payroll tax to achieve his goal of instituting personal retirement accounts.

Bush's remark drew instant parallels to his father's ill-fated decision as President to hike taxes after pledging at the 1988 GOP convention: "Read my lips. No new taxes." The younger Bush has repeatedly said he would not raise payroll taxes, but for the first time last week, he spelled out a difference between the payroll tax rate (workers pay 6.2% of their income and their employers pay another 6.2%) and the payroll tax cap (set at \$90,000 this year).

'Good Ideas'

"The one thing I'm not open-minded about is raising the payroll tax rate. And all the other issues go on the table. And that's important for people to know," Bush told reporters from six regional U.S. newspapers last Tuesday. When pressed by the New Haven *Register* if he would oppose levying the payroll tax on income over \$90,000, Bush responded: "I'm interested in good ideas. People need to come forth with good ideas. The one thing I won't do is negotiate with myself."

Bush's remarks stood in sharp contrast to his December 9 declaration: "We will not raise payroll taxes to solve this problem." Since then, Bush has repeatedly ruled out raising payroll taxes, adding statements to that effect in his stump speeches and his State of the Union address (see below). Meanwhile, White House Press Secretary Scott McClellan, when pressed on the question by Human Events, evaded answering.

Rep. Clay Shaw (R.-Fla.), the second-ranking Republican on the Ways and Means Committee, criticized the President's statement to the New Haven *Register*. "I don't think we should raise the income cap for the Social Security tax because it's unnecessary," Shaw told Human Events. "We have to look for other ways to save Social Security."

In an apparent effort to preempt any move to increase the income cap on the payroll tax, the conservative House Republican Study Committee (RSC) took a strong stand against such a move at its Baltimore retreat two weeks ago. "We agreed that we would oppose any tax increase for Social Security, and that an increase in the income cap on the payroll tax was a tax increase," Rep. Mike Pence (R.-Ind.), the RSC chairman, said the day before the President's comments were reported on the front page of the February 17 Washington *Post*. Pence said that sentiment against increasing the cap was "overwhelming" among the RSC. "You don't save a system by making it bigger," he said.

Another RSC member, freshman Rep. Patrick McHenry (R.-N.C.), called the President's comments

"unfortunate." He recalled that one of the tenets of Bush's proposed reform of Social Security is that there will be no tax increase. "When you subject anything new to taxation," McHenry told Human Events, "that in fact is a tax increase." The 29-year-old lawmaker also said, "We should not siphon more money out of the economy for a government program and instead find a way to reform Social Security without taking a play out of the Democratic playbook."

Rep. Paul Ryan (R.-Wis.) echoed McHenry's view in comments made to the *Washington Post*. "I think it's an unwise policy," Ryan told the paper. "I think we have to be really concerned about what it does to the self-employed" in particular. Ryan predicted that congressional Republicans would not embrace "a big tax hike."

Still, opposition to raising the cap on payroll taxes is not uniform among conservatives. Rep. Steve King (R.-Iowa) said he lobbied Pence and other RSC members not to rule out raising the cap during the Baltimore retreat. "Why does the guy who pays the most income tax in America--that would be [Microsoft CEO] Bill Gates--pay the least percentage of his income in payroll taxes?" King told Human Events. "Why not eliminate the cap and lower the rate?" King said he failed to get answers when he floated these questions to his fellow conservatives.

If the President and Congress did agree to lift the income cap on Social Security payroll taxes above its current \$90,000 level, it could amount to a massive marginal income tax increase that would potentially put a drag on the economy. It would especially impact middle-class families that earn more than the cap and on small-business owners. Both these groups are core constituencies of the Republican Party. It would also create an obstacle for companies, especially smaller businesses, to provide wage increases to workers already earning over \$90,000 because the companies would have to pay their half of the payroll tax on each new dollar in wages above that level.

A Tax Increase By Another Name?

Until the interview published February 15 in the *New Haven Register*, President Bush repeatedly pledged he would not increase payroll taxes. He told the *Register*, however, he would not increase the "payroll tax rate," leaving open the option of increasing the income level he would levy the tax against.

What President Bush told the New Haven Register:

"The one thing I'm not open-minded about is raising the payroll tax *rate*. And all the other issues go on the table. And that's important for people to know." [Italics added.]

*--President Bush,
New Haven Register
Feb. 15, 2005*

"I'm interested in good ideas. People need to come forth with good ideas. The one thing I won't do is negotiate with myself."

*--President Bush,
when pressed by the New Haven Register
on whether he would oppose lifting the \$90,000
cap on income subject to the payroll tax
Feb. 15, 2005*

What President Bush had said before:

"We will not raise payroll taxes to solve this problem."

--President Bush, Dec. 9, 2004

"I said we're not going to run up the payroll taxes. I think running up payroll taxes will slow down economic growth. The economy is beginning to kick in, it's beginning to make sense. I think we can solve the problem without increasing payroll taxes."

--President Bush, Jan. 11, 2005

"[W]e must not increase payroll taxes on American workers because raising taxes will slow economic growth."

--President Bush, Jan. 15, 2005

"It's very important for people to put all options on the table with the exception of affecting those who have already retired, like I have said, and without raising the payroll tax. Other than that, I'm open-minded."

--President Bush, Jan. 17, 2005

"We must not jeopardize our economic strength by raising payroll taxes."

--President Bush, Feb. 2, 2005

"And so last night, I said, all options are on the table except for running up payroll taxes."

--President Bush, Feb. 3, 2005

"Everything is on the table except raising payroll taxes."

--President Bush, Feb. 4, 2005

"We will not increase payroll taxes."

--President Bush, Feb. 5, 2005

"With the exception of running up payroll taxes or raising payroll taxes, all options are on the table."

--President Bush, Feb. 8, 2005

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