washingtonpost.com

Step-by-Step Tax Reform

By Grover Norquist

Monday, June 9, 2003; Page A21

President Ronald Reagan enacted one significant tax cut in 1981 -- and then allowed a series of smaller tax increases almost every year of his presidency. Another tax cut did not follow until 1997.

President Bush has proposed and now signed tax cuts in 2001, 2002 and 2003. The old Republican promise was that a new president would fight for one tax cut and then oppose tax hikes. The new Republican policy is an annual tax cut.

The strategy of annual tax cuts has united the center-right coalition and avoided the sort of conflict that bedeviled the 1981 tax cut, when K Street pushed to include its favorite industry or corporation-specific tax change at the cost of paring back Reagan's proposed 30 percent cut in marginal tax rates. Businesses were rightly concerned that this would be the last tax cut for some time. Bush's 2001 tax cut received strong business support, even though it was completely aimed at individual taxpayers. Why? Because the best way to "lobby" to be in next year's tax cut is to cheerfully support the president's tax cut this year.

The Bush administration -- wisely -- has not proposed fundamental tax reform in a single piece of legislation. But the president has been taking deliberate steps toward such reform with each tax cut. There are five steps to a single-rate tax, which taxes income one time: Abolish the death tax, abolish the capital gains tax, expand IRAs so that all savings are tax-free, move to full expensing of business investment rather than long depreciation schedules and abolish the alternative minimum tax. Put a single rate on the new tax base and you have Steve Forbes and Dick Armey's flat tax. Each of the Bush tax cuts, past and proposed, moves us toward fundamental tax reform. The step-by-step annual tax cut avoids the problem that faced Bill and Hillary Clinton's too ambitious effort to nationalize health care in one gulp: It is easy to stop oversized reforms.

Conservatives want to move to a flat-rate income tax for both economic and political reasons. The economic goal is to reduce the tax rate on labor and capital and reduce the disincentives to savings, investment and work.

The political goal is to unite all taxpayers. When taxpayers are divided into different tax brackets, they can be mugged one at a time through the "divide, isolate and tax" strategy that Clinton pursued when he promised to tax "just the top 2 percent" of earners.

Bush's surprising call to abolish the double taxation of dividend income was a recognition that the U.S. economy has fundamentally changed. In the aftermath of the Great Depression, the single political measure of the economy's health was the unemployment rate. After the Great Inflation of the 1970s, inflation became an equal measure of economic well-being, and Jimmy Carter added together the unemployment rate and inflation rate to create the "Misery Index."

Today, with 70 percent of voters owning shares of stock, there is a third measure: the value of the stock market. Politicians used to like to "hide" tax increases in taxes on corporations. Now 70 percent of voters understand that looting big business is actually looting their retirement portfolios. When Tom Daschle said that cutting taxes on investors was cutting taxes for the "wrong people," he was reminding voters that the Democratic leadership still thinks the American economy is in the 1930s, with only the Rockefellers and Kennedys owning stock.

In crafting its agenda for economic reform, the Bush administration has the luxury of being able to think and plan over a full eight years. This is because the 2002 redistricting gave Republicans a lock on the House of Representatives until 2012 and the Founding Fathers gerrymandered the Senate for Republican control. In the 50-50 election that was 2000, Bush carried 30 states and Al Gore 20. Over time, a reasonably competent Republican Party will tend to 60 Republicans in the Senate. This guarantee of united Republican government has allowed the Bush administration to work and think long-term.

Reagan could move in bursts, using his political capital from the 1980 and 1984 elections to push through key reforms, but then the Democratic majority in the House would slow or stop most other initiatives. The Bush administration can plan over an eight-year period, moving various initiatives at different paces. Progress need not come in short, fleeting moments of political strength.

One sees this longer time horizon not only in the annual tax cuts that move slowly toward a flat rate income tax, but also in the decades-long move to free trade in the hemisphere and U.S. Trade Representative Robert Zoellick's call for zero tariffs on manufactured goods within 10 to 15 years, the focus on transformation in the Defense Department, reforms in personnel management and the Social Security changes that will take a generation to phase in.

The Pentagon used to debate whether we had enough strength to fight two wars at the same time. The Bush administration is demonstrating that it can operate successfully on two fronts, fighting the war on terrorism and at the same time embarking on fundamental economic reform.

The writer is president of Americans for Tax Reform.