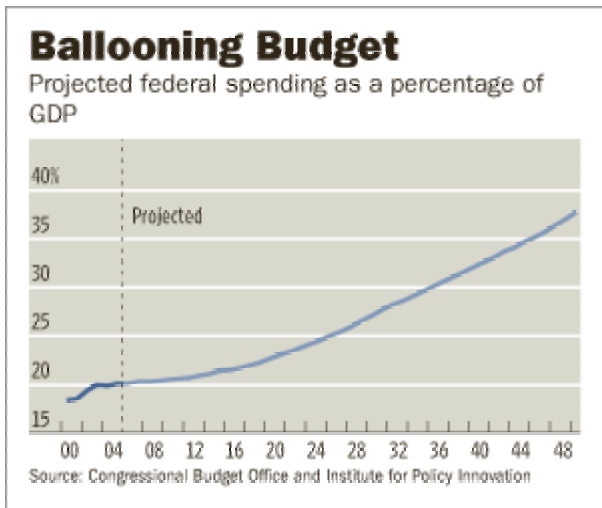




## Supply Side: Don't Know Much About History...

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By Stephen Moore  
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Back in 1982, President Reagan got snookered into a grand bipartisan deficit reduction deal known as the Tax Equity and Fiscal Responsibility Act. He "reluctantly" agreed to what was then one of the largest tax increases in American history -- only because he was assured there would be \$3 of federal spending cuts for every dollar of higher taxes. For the remainder of his presidency, whenever new taxes were proposed, the Gipper huffed: "I'm still waiting for those \$3 of spending cuts the Democrats promised me."



Like moths attracted to a bug zapper, the White House and many congressional Republicans now want to negotiate a blockbuster budget deal to tackle the stampeding cost of entitlements. Meanwhile, Democrats and left-leaning think tanks are already laying the groundwork to build a Washington tax-hike consensus. As Robert Rubin, the Democrat's economic guru and one of the architects of the 1993 Clinton tax hike, recently said of the proposed commission, "It only makes sense substantively, in my judgment, to get together around this if everything is on the table, including the tax cuts."

Republicans are sounding receptive. Asked about entitlement reform at a meeting with a group of journalists a few weeks ago, the president's chief economic advisor, Al Hubbard, told a group of reporters that everything can be "on the table" -- an unmistakable code phrase for saying new taxes won't be ruled out. Last week the legislation introduced by

Virginia's Republican Rep. Frank Wolf to create the commission explicitly allows for "tax policy changes."

The rules of Mr. Wolf's commission would require Congress to vote up or down on the entire package of recommendations -- meaning that any tax increases would be imbedded like a computer virus into the final deal. Few Democrats in Congress have spoken publicly in favor of the commission other than Tennessee's John Tanner; on the other hand, Mr. Wolf's Senate sponsor, George Voinovich, is very much in favor of higher taxes.

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Some conservative leaders are starting to feel paranoid. Former Speaker of the House Newt Gingrich, a front row participant in several such events in the past, calls bipartisan budget deals a "a functional invitation to raise taxes" and notes that "the end result is spending cuts always prove to be phony and government always grows bigger."

One case in point was the 1983 commission to close the Social Security funding gap, which "fixed" the financing crisis by scheduling a series of economically damaging payroll tax increases while dismissing personal retirement accounts. The head of that commission was Alan Greenspan, who some are touting as the ideal chairman of this one.

The White House is understandably concerned by the multitrillion dollar funding gap in the old-age entitlement programs. According to the latest projections by the Congressional Budget Office, if we leave Social Security and Medicare spending on auto-pilot, federal expenditures will climb inexorably from 21% of national output today to 30% in 2030 and then 37% by 2050.

Would Democrats cooperate in curtailing these runaway costs? Earlier this year, when the Republicans enacted microscopic cuts of 1% off the double-digit growth rate of mandatory spending programs, the Senate Democratic Policy Committee screamed that Republicans were ripping gaping holes in the social safety net by slashing "key programs that help mothers provide basic needs for their children . . . bring aid to widows and orphans and provide Social Security death benefits for families who need assistance in order to bury their loved ones with dignity."

Meanwhile, Mr. Bush has already proposed a series of measures to fix the finances of entitlement programs. Last year, he proposed reducing the long-term liabilities of Social Security by hundreds of billions of dollars through a combination of shifting to voluntary personal accounts and cutting the growth rate of future benefits for upper-income retirees. This year he proposed massive changes to the financing of medical care through a shift in payments from conventional third-party health insurance to health savings accounts. The Democrats lined up solidly against both plans.

Stuart Butler, an economist at the conservative Heritage Foundation, says that budget experts at liberal think tanks like the Brookings Institution and the Urban Institute know that something must be done. "Most liberals," he says, "are now aware of the fiscal reality that

relentlessly rising middle-class entitlement costs will eventually deplete the last drop of available funding for every other program in the budget they care about, from the Department of Education, to programs for needy children, to low-income housing assistance." Perhaps they are; but does anyone imagine that this dawning perception -- of a mass government program famine -- will accomplish anything other than persuade Democrats that tax increases are instrumental to liberalism's very survival?

If the White House is concerned with Mr. Bush's legacy, it might ponder a meltdown of his one unarguable domestic policy triumph. "This compromise gambit," warns budget expert Peter Ferrara of the Free Enterprise Fund, "could lead to an effective reversal of the Bush tax cuts. If federal spending is slated to rise to 35% of GDP, where is a political compromise with the liberals going to leave taxes and spending? Probably even above the all-time high 25% of GDP."

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Herein lies the dead-end of raising revenues to cover runaway costs. Tax increases anywhere near 25% of GDP would cripple the rate of economic growth and slow the rate of capital accumulation and the build-up of national wealth -- leaving future generations worse off.

Reflecting what has become the mantra of the entitlement Chicken Littles, David Walker, head of the Government Accountability Office, states that there is "no way we can grow our way out of the entitlement funding crisis." Not so.

Just in the three years since the Bush capital gains and dividend tax cuts, the net worth of American households has soared by more than \$12 trillion -- and asset growth of that magnitude makes the imposing long term debts all the more manageable. If productivity, GDP and asset values continue to grow over the next 25 years at the pace they have over the past quarter century, the economy will be twice as large, and our net wealth will be well over \$100 trillion. The Republicans' best strategy to get there is by maintaining pro-growth economic policies while pressing the case for sweeping, market-based reforms for Social Security and Medicare that are attractive to the younger and ever-expanding owner-society voter base. And the first step in that strategy is to remain resolute in its opposition to new taxes.

For 25 years, virtually every bipartisan budget deal has meant higher taxes, higher spending and political carnage for the GOP. The most notorious of these budget deals, forged at Andrews Air Force Base in 1990, led George H.W. Bush to repudiate his "read my lips, no new taxes" pledge, and to lose his presidency to Bill Clinton. Republicans forget this lesson of history at their own peril.

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