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COMMENTARY

No New Taxes

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The administration hasn't learned from last year. Despite electoral defeats, it is still advancing Social Security reform as an argument over solvency. The centerpiece of George Bush's plan was to have been personal retirement accounts for workers who wanted to establish their own nest egg -- a much better deal for them and a down payment on the huge liabilities owed by the entire system. Unfortunately, his plan faltered.

The American people did not reject Social Security reform or personal retirement accounts. They rejected the entire debate and how it unfolded. They rejected the notion that the predominant goal was to make the numbers add up or, in the language of the wonks and actuaries, to make it "solvent." Such a yardstick expresses no opinion on how to fix an increasingly bankrupt program, and as a result, blesses both benefit cuts and tax increases alike.

While Mr. Bush has reiterated his opposition to tax increases, Treasury Secretary Hank Paulson has repeatedly said that everything is on the table for negotiations with the Democratic Congress. When Press Secretary Tony Snow was asked whether the White House was ruling out a tax increase in Social Security reform, he replied, "No, I'm not."

This is all code for the administration's willingness to consider raising taxes in exchange for reductions in promised benefits. Such a tax increase would likely lift or eliminate the cap on the amount of salary and wages subject to the payroll tax, currently at $94,200. Raising payroll taxes would prove devastating to working Americans, small business and the economy as a whole. Worse, it would only serve as a short-term band-aid to Social Security's financial woes.

According to the Heritage Foundation, eliminating the cap will increase taxes by $484 billion over five years. This 12.4 percentage point marginal tax rate increase would hit middle-income families struggling to make ends meet, pay for college and save for retirement. Much of this increase will be borne by three million small-business owners who pay both the employer and employee portion of the tax hike. These entrepreneurs are on the forefront of job creation, and such a tax would cause millions of layoffs. Overall, the entire economy would slow by 2% to 3%, threatening the standard of living and economic opportunities of every American. In exchange for this massive tax increase, Social Security's financing will be preserved for roughly seven years.

Despite the fact that Republicans have already turned off millions of conservative Americans by runaway federal spending, some conservatives are expressing support for a Republican tax increase. They believe that through shrewd negotiating, the administration will get Democrats to agree to benefit reductions without a net tax increase, meaning a removal of the payroll cap could lead to a reduction in the payroll tax or the offering of tax credits to low-income workers. Such hope is folly disguised. Democrats are not likely to agree to reductions in promised benefits without exacting an actual tax increases, unless of course, "tax credits" are a thinly veiled attempt at passing a new entitlement for low-income workers through the tax code.

We have been down this road before. In 1990, I was a young candidate for Congress when the last Bush administration sided with a Democrat majority in Congress to pass the largest tax increase in history, all in the name of bipartisanship and compromise. This compromise ushered in economic recession and a two-term Democratic administration in the White House. We cannot walk down the 1990 road to "compromise" again.

First, the administration needs to be clear that a Social Security compromise must reject tax increases of any kind. That means no increase in the payroll tax rate and no change in the cap apart from the current indexing that already increases eligible income on an annual basis. Tell the Democratic Congress to read your lips, Mr. President: no new taxes.

Second, Social Security reform must be properly understood. It is not about achieving solvency; it is about improving the system so that it offers a better deal for younger Americans through personal savings accounts. Focusing on solvency will lead inevitably to tax increases and benefit cuts. Focusing on personal retirement accounts improves the chance of enacting sound public policy that also makes the system solvent.

Third, the administration should submit a budget that fully protects the Social Security surplus from being used to subsidize government largesse, which Patrick Moynihan once described as "embezzlement." Voters have repeatedly said loudly and clearly that they object to raiding the Social Security surplus. It is time for the administration to either offer a budget aligned with those expectations, or propose cutting the payroll tax immediately to end the historic practice of over-collecting for a pay-as-you-go system. Doing both would quickly restore the public's shattered confidence in the way we spend their money.

Republicans don't have to pass a bad Social Security reform bill. If we lack the votes now to pass legislation that will actually preserve the system and protect our nation's economic expansion, we would be wise to spend the next two years seeking to win the debate and leave a foundation of arguments that will not unravel.

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