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Tax Cuts Lose Spot On GOP Agenda

War, Medicare, Social Security Expenses Loom

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President Bush and Republican lawmakers are being forced to temper their anti-tax ambitions, as the party that consolidated power in Washington by promising to shrink government grapples with the high cost of its efforts to expand the Defense Department and the nation's two largest entitlement programs.

The president's only new tax initiative for the second term -- a broad restructuring of the tax code -- will be crafted in a way that results in a simpler system, not lower taxes, White House aides said.

At the same time, Bush's call for Congress to make permanent all the tax cuts enacted in his first term faces increasingly strong resistance among some Republicans concerned about rising deficits. The chairmen of the Senate Budget and Finance committees said in interviews last week that Republicans might wait until next year, or later, to consider the Bush plan, because the cuts do not expire until the end of the decade.

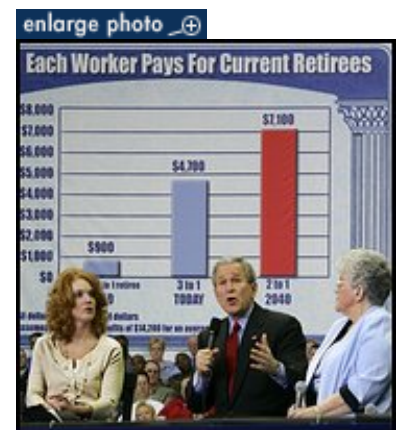
And, for the first time in years, Lindsey O. Graham (S.C.) and other Senate Republicans are advocating increasing taxes -- as a way to pay for a restructuring of Social Security. Bush has not ruled out backing the effort.

"What is different this year is deficits loom larger over the debate in the Senate," said Graham, who opposes extending some of the Bush tax cuts he supported. "I believe senators will be more balanced in what we can afford."

Federal Reserve Board Chairman Alan Greenspan warned Congress last week that rising deficits beg new scrutiny of tax cuts. "Addressing the government's own imbalances will require scrutiny of both spending and taxes," he said.

To be sure, Bush and most congressional Republicans, especially in the House, remain committed to cutting taxes as a guiding principle. Some leaders are considering pushing this year to extend some of the tax cuts enacted in 2001 and 2003, including those for capital gains, at the very least. But after cutting taxes aggressively over the past four years, a growing number say it would be unwise to reduce the amount of money the government is taking in at a time when bills for Medicare, Social Security and the Iraq war are piling up.

The shift is pragmatic, not philosophical, and reflects a trend playing out around the country. Many governors are facing large deficits and rising costs, especially for Medicaid, which provides medical coverage to low-income Americans. Indiana Gov. Mitchell E. Daniels Jr. (R), Bush's budget director in the first term, recently drew the wrath of conservatives by proposing a 29 percent increase in the state income tax rate on the richest residents. Republican governors in Colorado and Alabama have championed tax boosts as well.



President Bush promotes his plan to retool Social Security during a town hall meeting at the University of Notre Dame in Indiana. (J. Scott Applewhite -- AP)

"The large deficits and apparent inability of Republicans to constrain spending has made it impossible for sensible folks to advocate" big tax cuts, said Kevin A. Hassett of the conservative American Enterprise Institute. "Sooner or later, government has to pay for everything."

Hassett said Republicans might be experiencing the unintended consequence of the "starve the beast" theory, which holds that lower taxes could force Congress to cut spending because there is less money in Washington. In this case, the deficits are forcing Congress to hold back on tax cuts, too, Hassett said.

Nicolle Devenish, a top Bush adviser, said the tax cuts enacted in Bush's first term jump-started the economy and are ample to keep it humming, as long as Congress makes them permanent. "We cut taxes when the economy needs it," she said. "Recent [gross domestic product] figures and job stats show a healthy, growing economy. For that reason we strongly believe the tax cuts must be made permanent so we don't backslide."

This is no easy task for Bush, especially in the Senate. Several Republicans are voicing opposition to making permanent some or all of the first-term cuts, which include reductions in tax rates on income, dividends and capital gains. To hold down the cost of the cuts to \$1.7 trillion, Republicans designed the tax cuts to expire no later than 2010. Extending the 2001 and 2003 cuts for five years beyond 2010 would cost more than \$1 trillion, according to White House figures.

Sen. George V. Voinovich (Ohio), one of several Republicans who voted for some or all of the tax cuts, is expressing serious concerns about making them permanent this year.

Voinovich, who bills himself as a deficit hawk, believes the nation cannot afford to run up large short-term deficits, especially with projections that spending on Medicare and Social Security will explode in coming decades, said his spokesman, Scott Milburn. Voinovich believes "any cuts need to be offset," through reductions in spending elsewhere, Milburn said. "If they are not, he has made it clear to people he will not be there for them."

POLITICS TRIVIA

Monday's Question:

President Bush is scheduled to host the King and Queen of Norway for a meeting today. In what year did the first ruling monarch visit the White House?

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1814

1874

1911

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