The number one task of US Congress: how to make the rich richer

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The Republican Congress completed work August 4 on a tax bill which was passed by the House of Representatives and the US Senate that day, providing for $792 billion in tax cuts, the vast bulk of it to the wealthiest families in America.

The manner in which the congressional Republican leadership resolved the differences between the House and Senate versions of the bill speaks volumes about the social meaning of the tax cut legislation. Nearly all the gestures to the middle class, adopted in the Senate in an attempt to win Democratic support, were scrapped by the House-Senate conference committee.

The result is a bill which more openly favors the wealthy than any major piece of legislation in recent history, even the Reagan tax cut of 1981. The original House bill provided 80 percent of its tax cuts to the richest 20 percent of Americans, while the Senate bill provided 67 percent. The "compromise" reached by the House-Senate conference gives 79 percent of the tax cut to this richest fifth of the population, while the vast majority of the people get only pocket change.

The major provisions of the bill include:

* A reduction of 1 percent in the tax rate for each tax bracket (the lowest bracket falls from 15 percent to 14 percent, the highest from 39.6 percent to 38.6 percent).

* A cut in the capital gains tax from 20 percent to 18 percent for high-income individuals, but no cut in the capital gains tax for corporations.

* The gradual abolition of the inheritance tax on large estates—those over $650,000 for an individual, $1 million for a couple.

* A reduction in the so-called marriage penalty, under which some higher-income married couples pay more filing jointly than they would filing separately, because their combined incomes put them in a higher tax bracket. The $100 billion devoted to this provision, lobbied for heavily by the Christian Coalition and other fundamentalist groups, will go largely to the upper middle class.

* Extension of Individual Retirement Accounts, private pension accounts which receive favorable tax treatment, to those with incomes of between $100,000 and $200,000 a year. The IRA was introduced two decades ago as a measure to provide tax relief for struggling middle income families, but now all but the top 1 percent of taxpayers can take advantage of it.

* An estimated $100 billion in special tax breaks for specific industries and groups of industries, including transnational corporations, the oil industry, timber companies and agribusiness.

According to an analysis prepared by Citizens for Tax Justice, the top 1 percent of the population, with incomes of $301,000 or more, will receive 41.4 percent of the total tax cut, an average of $45,835 apiece. The top 10 percent, those making $89,000 a year or more, will get 68.1 percent of the tax cut, an average of $7,520 apiece. The bottom 60 percent of the population, all those with an annual family income of $38,200 or less, will get 8.5 percent of the total tax cut, for an average of $157 apiece.

The final days of negotiations between House and Senate Republicans were surrounded by a frenzy of lobbying by corporate interests, each vying to insure that their own special provision was included in the bill. An account August 1 in the *New York Times* noted, "the latest bills have proved a bonanza for the lobbyists who clog the corridors outside the House and Senate tax-writing committees."

The *Wall Street Journal* reported the successful corporate lobbying under the gloating headline, "Tax Bill Is a Boon for Corporate America." The August 9 article singled out a $24 billion tax break for transnational corporations, sought by a group led by General Motors; a $7.9 billion reduction in the corporate minimum tax, a measure spearheaded by Champion International; a $13.1 billion business research tax credit promoted by the computer and software industries; and a $1.1 billion windfall for companies which sell weapons overseas, obtained by lobbyists for Lockheed Martin and other Pentagon contractors.

The American ruling class and upper middle class pay taxes at a lower rate than their counterparts in most other industrialized countries, and have enjoyed the most rapid increase in wealth, both in absolute terms and as a proportion of the total resources of society.

An August 4 article in the *Wall Street Journal* —which can hardly be accused of an anti-business bias—noted that American corporations already pay relatively little in taxes. Some 40 percent of medium- and large-sized corporations, those with more than $250 million in assets or $50 million in gross receipts, paid less than $100,000 apiece in federal taxes in 1995, the last year for which such figures are available.

The proportion of corporate profits paid out in taxes has fallen from 41 percent in 1989 to 31 percent in 1998. While boasting about record profits, many companies have contrived to pay little or nothing in income taxes. GM, for instance, with $4.61 billion in 1998 pretax income worldwide, paid only $36 million in US taxes. The company's pretax income from US operations was $1.23 billion, making its effective tax rate only 2.9 percent. This compares to the 15 income tax rate percent rate paid by most auto workers. When Social Security, Medicare and state and local taxes are included, the tax rate on workers' income rises to more than 40 percent.

It is most remarkable, given such figures, that congressional Republicans have approached the task of cutting taxes for the wealthy with such fervor. Republican congressmen and senators alike brazenly defended the tax cuts' disproportionate rewards for the wealthy, arguing that since the rich paid more taxes, they should get the lion's share of cuts. E. Clay Shaw, the Florida congressman who drafted the 1996 legislation cutting off welfare payments to poor mothers and children, called the tax cut “as near a perfect tax bill as I've seen in my years in Congress.”

One factor in the Republican tax cut frenzy is the growing conviction that the stock market boom and the ascendancy of reaction in American politics have only a limited future, and that it is “now or never” for the right-wing wish list. It is difficult to explain otherwise how a measure so flagrantly anti-democratic and anti-popular as the abolition of all taxes on inherited wealth could become the principal priority of a party which faces an election campaign next year.

Equally remarkable, as an exposure of big business politics, is the decision of the Democratic Party to oppose the tax cut, not because it favors the wealthy, but because it is not “fiscally responsible.” Arguing like Republicans of two decades ago, the Clinton White House and Democratic congressional leaders said that the bulk of the anticipated budget surplus should be used to pay off the federal debt.

Clinton reiterated that he would veto the tax cut, but in a speech to the National Governors Association—most of whose members are Republicans—he held out the possibility of a compromise which would phase in the tax cuts more slowly.

So far to the right has the whole structure of big business politics moved that there are very few voices within either party who suggest that even a tiny fraction of the surplus should be used to meet urgent social needs. The only expansion of social services proposed by Clinton this year—prescription drug coverage for Medicare recipients—would be largely financed by cuts in other programs and user co-pays, not from tax revenues.

While the Democrats and Republicans describe their differences over tax and budget policies in apocalyptic terms, the reality is that both parties are committed to tax breaks for the wealthy and to drastic cuts in social spending. They agree on the direction of social policy, coming into conflict only over how fast and how far to go.

In ongoing talks over the budget, which are taking place side-by-side with the tax bill posturing, both the White House and congressional Republicans assume substantial increases in military spending and substantial cuts in all other domestic discretionary spending. One analysis of the budget plans finds that the White House budget assumes $200 billion in cuts in domestic social spending over the next 10 years—about 13 percent across the board—while the Republican budget assumes $716 billion in cuts—about 43 percent.

The tax bill itself has as one purpose to force additional spending cuts. The $792 billion price tag is highly misleading, since the legislation is filled with clever bookkeeping devices which introduce various tax breaks but defer their full impact until after the 10-year accounting period required under congressional budget rules. The effect is to heavily back-load the bill, with the $792 billion in cuts between 2000 and 2009, more than tripling to $2.6 trillion in cuts during the following decade from 2010 to 2019.

The enormous dimensions of the tax cut suggest the long-term social purpose of the legislation. While enriching the wealthy, the tax cut would also starve the federal government of the revenues required to restore any of the cuts in social spending made over the past two decades, let alone undertake any new initiatives. Its purpose is to make permanent the destruction of social programs which has been carried out under Reagan, Bush and Clinton.