# US central bank chief boosts Bush tax cut for the wealthy

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US Federal Reserve Chairman Alan Greenspan shifted his position Thursday and endorsed a massive tax cut for the wealthy, the centerpiece of the economic program of the new Bush administration. In testimony before the Senate Budget Committee Greenspan cited both the threat of economic slowdown and the danger of demands for new federal spending as arguments for reducing the budget surplus through tax cuts.

In his prepared statement to the Senate panel, Greenspan echoed claims by Bush economic advisers that a large tax cut now would serve as an insurance policy against a possible recession. “Should current economic weakness spread beyond what now appears likely, having a tax cut in place may, in fact, do noticeable good,” he said.

Greenspan dismissed the concerns which he had raised over earlier tax cut proposals, that they would cut across efforts to pay down the federal debt and free up capital for investment. “The most recent data significantly raise the probability that sufficient resources will be available to undertake both debt reduction and surplus-lowering policy initiatives,” he claimed. “Accordingly, the trade-off faced earlier appears no longer an issue.”

Until this week Greenspan had sided with the Clinton administration in opposing both the tax cuts for the rich enacted by the Republican-controlled Congress and the plan proposed by Bush during the presidential campaign. Bush's tax cuts would come to $1.6 trillion, double the $800 billion in cuts approved by Congress in 1999 and passed again in piecemeal form last year.

Clinton vetoed both congressional tax cuts, with Greenspan's support. But only five days after Clinton left the White House and Bush moved in, the central bank chief reversed his stance. The abruptness of the change, and the transparent speciousness of the reasons given by Greenspan—the latest economic figures suggest the projections of huge budget surpluses are wildly exaggerated—underscore the political nature of his action.

Speaking for the most powerful sections of big business, Greenspan has thrown his weight behind the Bush tax cut plan only three days after it was formally introduced in Congress. His support undermines what would in any case have been limited Democratic Party opposition, and virtually assures passage of the tax cut in some form.

This opposition was already crumbling. Early this month the leading House Democrat, Minority Leader Richard Gephardt, indicated that he hoped to “work out a compromise” with Bush on the tax. He told NBC's “Today Show” on January 3, “I think we need a tax cut. I've felt that—and Democrats have felt that—for a long time.”

By the time the tax cut was introduced in the Senate January 22 by Senator Phil Gramm (R-Tex.), the bill had its first Democratic co-sponsor, Senator Zell Miller (D-Ga.), who appeared with Gramm at a press conference to tout the legislation. The bill, modeled closely on Bush's campaign platform, would end the inheritance tax—which affects only a few thousand wealthy families each year—cut tax rates across the board, and eliminate the so-called marriage penalty, a consequence of the graduated income tax which means that some higher-bracket married couples pay more filing jointly than they would if they filed separately.

The combined effect of these provisions would be a staggering bonanza for the rich. Of the total $1.3 trillion over nine years in the Gramm-Miller bill, $500 billion would go to the richest one percent of Americans. The remaining $800 billion would go to the other 99 percent of the population. Most middle-income families would receive a negligible cut—a few hundred dollars a year in most cases. The poorest 20 percent, who pay little or no income tax now, would receive nothing.

Miller explicitly defended the bill's disproportionate benefits for the wealthy. “Who are we to pick and choose and select and cull and single out among our taxpayers? All of them combined have made this overpayment, and all of them combined should get a break from this oppressive tax structure.” He added, “I agree with President Bush that the taxpayers are better judges of how to spend their own money than we are.”

Senate Minority Leader Tom Daschle countered the Gramm-Miller bill with his own tax cut plan, which would eliminate the inheritance tax on most estates, eliminate the marriage penalty, and provide other tax breaks targeted more to the middle class than the super-rich. The total value of the Democratic plan was estimated at $600 billion to $700 billion.

Republican spokesmen have suggested that the tax cut is more likely to increase from the $1.3 trillion figure than to decrease. House Majority Leader Richard Armey said the tax cut should be made retroactive to 2000 so that refunds would go out in the next few months, helping to stimulate the economy and forestall a recession. The plan Bush proposed during the campaign would not have taken effect until next year.



Greenspan's comments Thursday indicated that fears of an economic slowdown played a major role in the policy shift at the Federal Reserve. In response to a direct question about whether the US economy was already in recession, Greenspan replied that growth had indeed fallen sharply. “As far as we can judge, we have had a very dramatic slowing down and indeed we are probably very close to zero at this particular moment,” he said.

The Federal Reserve cut rates unexpectedly by a half-point early this month, and it is expected to decide on a further rate cut at its next scheduled meeting January 30-31.

But Greenspan added another more ideological and long-term reason for supporting a major cut in federal tax rates. Without it, he warned, budget surpluses might lead the federal government to accumulate substantial financial assets, compelling it to play a much greater role in the economy than presently.

In both budgetary policy and the transformation of the Social Security system, he advocated “transferring government saving to individual private accounts as a means of avoiding the accumulation of private assets in the government accounts.” In typically convoluted language, Greenspan was giving a boost to Bush's proposed partial privatization of Social Security, which involves the establishment of individual investment accounts for more than a hundred million workers, and a huge new influx of cash into the stock and money markets.

The Bush administration may move much more rapidly than expected on the Social Security “reform” issue, spurred by the shakiness in the stock markets and the prospect that an economic slowdown could reduce the budget surplus available to pay for the tax cuts. Bush's chief economic adviser, Laurence Lindsey, said last week that the “question should be asked” whether the Social Security surplus could be used to help pay for Bush's proposal.

Throughout the presidential campaign Bush disavowed any plan to raid Social Security to pay for the tax cut for the rich, claiming that Social Security surpluses would be exclusively dedicated to the retirement program. But Lindsey dismissed these pledges off-handedly. “I understand the political arguments about why it is important,” he told the *Washington Post*,” but it is important to keep in mind the economic realities.”