

US Senate approves record tax cut for the wealthy

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25 May 2001

By a 62-38 margin, with 12 Democrats joining all 50 Republicans, the US Senate voted May 23 to adopt the largest tax cut for the wealthy in American history. The plan includes the phasing out, over the next 10 years, of all taxation of inherited wealth, eliminating the federal estate tax that was first enacted nearly a century ago.

The Senate bill delivers the bulk of the plan proposed by President George W. Bush less than four months ago. The speed with which the measure has passed both the House and Senate attests to the single-minded determination of the Bush administration to satisfy the demands of the financial aristocracy which rules America—and to the lack of any serious opposition from the Democratic Party.

The Senate reduced Bush's initial tax cut proposal of \$1.6 trillion over 10 years to \$1.25 trillion, then added \$100 billion more in tax cuts for 2001 and 2002, bringing the final total to \$1.35 trillion. Though some differences must still be ironed out in a House-Senate conference committee, the basic structure of the tax legislation is not in doubt. It includes four major components:

- * A reduction in income tax rates, with the House plan cutting the top rate from 39.6 percent to 33 percent, and the Senate plan setting the maximum at 36 percent. The 15 percent rate paid by the majority of working class families would be reduced to 10 percent for the first \$6,150 of income only. Millions of low-income families who pay little or no income tax will gain nothing.

- * Phase-out of the estate tax over the next 10 years. During the interim period the amount of an inheritance wholly exempt from taxation would rise from \$675,000 to \$4 million.

- * A gradual increase in the child tax credit from the present \$500 per child to \$1,000 per child by 2010, with a provision extending the credit to low-income families who presently pay no income tax.

- * New tax breaks for middle and upper income married couples, to take effect in 2006, ending the so-called “marriage penalty,” a quirk in the tax schedule under which some couples pay more filing jointly than if they filed separately.

From the standpoint of social equality, the tax legislation rivals the notorious 1981 Reagan tax cuts as the most class-biased handout to the wealthy ever enacted by an American Congress. According to estimates by Citizens for Tax Justice and the Center on Budget and Policy Priorities, the top 1 percent of the population would receive 35 percent of the total tax cut under the plan, an average of \$44,293 for America's wealthiest families. The top 20

percent would receive 70 percent of the tax cut. The poorest 20 percent would receive only 1 percent of the total, an average of \$65 per family.

The House and Senate bills are virtually identical in how they treat the bottom 80 percent of the American population. The major difference is how they divide up the bonanza for the top 20 percent. The Bush plan adopted by the House gives nearly twice as much to the top 1 percent as the Senate version, which distributes the windfall more evenly among the upper-income layer.

From the standpoint of fiscal policy, the tax cut has the most ominous implications for basic social programs like Social Security and Medicare. The major cuts for the wealthy have been heavily backloaded, because of the requirement that the bill fit into the framework of \$1.35 trillion over 10 years set by the budget resolution adopted earlier this month. The cost of the cuts in the second 10 years explodes to \$4 trillion, with the abolition of the estate tax being especially costly.

The effect of this can be easily foreseen—and was well known to all the senators who voted on the bill. If the tax cut is actually implemented over the next 10 years, the federal government will be bankrupted and there will be no alternative but massive cuts and the eventual dismantling of Social Security and Medicare. Any spending on new programs to meet urgent social needs—education, infrastructure, health care, etc.—is effectively prevented.

From a political and ideological standpoint, the elimination of the inheritance tax has especially great significance. This tax was introduced, along with the graduated income tax, during the Progressive Era at the beginning of the twentieth century, when important sections of the American ruling elite felt it necessary to attempt to ameliorate the most glaring inequalities of the capitalist system through limited concessions to the working class.

Today the moving spirit in the ruling class is diametrically opposite. The advocates of the tax cut brazenly defend awarding hundreds of billions of dollars to the wealthiest and most privileged in America. Senate Majority Whip Don Nickles of Oklahoma denounced opposition to the tax cut as “class war demagoguery,” while Senator Phil Gramm of Texas declared, “There's one form of bigotry that is still acceptable in America—that's the bigotry against the successful.”

Big business considers the present measure before Congress only the first stage in an even more vicious assault on the working class. In an interview published May 18 in the *Financial Times*, Treasury Secretary Paul O'Neill called the tax system an “abomination” and

proposed as a solution the abolition of the corporate income tax and the capital gains tax. He also suggested that the elderly be put to work to defray a portion of their Social Security and Medicare costs. "Not only am I committed to working on the issue," O'Neill declared, "the president is also intrigued about the possibility of fixing this mess."

Senator Gramm further claimed that the burden of taxation on the wealthy was damaging the social fabric of the country. "We are approaching the point when society is becoming unstable," he said.

Fellow Republican Jim DeMint, a South Carolina congressman, was the most explicit about the political implications of the tax bill. "Every day more people receive benefits from the government and fewer people are paying for it," he said. "You think about it politically. When almost half the voters pay little or no taxes, their vested interest in government is different. The political power has shifted from those who pay the taxes to those who receive the benefits."

Such comments give a glimpse of the deeply anti-democratic character of the right-wing forces which control the Republican Party and installed the Bush administration through an unconstitutional intervention of the US Supreme Court. They see the present Congress as perhaps their last chance to abolish the estate tax, the income tax and other remnants of progressive and welfare-state policies, and they are moving ruthlessly to carry this out.

The methods employed by the Republican Senate leadership to obtain rapid passage of the tax cut demonstrate the further erosion of democratic procedures. By a one-vote margin supplied by the defection of Democrat Zell Miller of Georgia, the Republicans incorporated the tax cut legislation into the budget reconciliation process, exempting it from filibuster and limiting debate to a total of 20 hours.

When the Senate parliamentarian ruled against attempts by Majority Leader Trent Lott to speed adoption of the bill, Lott had him fired. The text of the bill was not made public until the night before the Senate began voting on amendments, in order to make it more difficult to obtain an independent calculation of the actual costs of the bill.

All the actions of the Republicans, however, were predicated on their encountering no serious or principled opposition from the Democrats. Indeed, in a 50-50 Senate, Bush, Lott & Co. required Democratic support every step of the way. First Miller signed on as a co-sponsor of the legislation. Then the ranking Democrat on the Senate Finance Committee, Max Baucus of Montana, cut a deal with the Republican chairman, Charles Grassley, with the support of three other committee Democrats—Blanche Lincoln of Arkansas, John Breaux of Louisiana and Robert Torricelli of New Jersey. The bill passed the committee by a 14-6 vote.

One commentator noted that Montana, Louisiana and Arkansas rank forty-sixth, forty-seventh and forty-eighth in terms of income among the 50 states, and will receive proportionally small amounts for a tax cut focused on the wealthy.

Once the bill reached the floor, Democratic defections multiplied. In a critical test vote on May 22, a Democratic amendment to reduce the tax cut from \$1.35 trillion to \$900 billion

was defeated 58 to 41, with nine Democrats opposing it. Ultimately, 12 of the 50 Democrats voted for the bill, bringing the margin to nearly two thirds.

Instead of forthrightly opposing the Bush tax cut from the beginning, congressional Democrats offered their own alternative tax plan, basically a watered down version of the Republican program.

The capitulation of the Democratic Party to the tax-cutting drive by the Republicans was entirely predictable. Over the past 25 years the Democrats have moved steadily to the right. They have abandoned policies of social reform and adopted the law-and-order demagoguery and free-market nostrums of the Republicans. The Democratic Clinton administration initiated a broad assault on the most impoverished sections of the working class under the guise of "welfare reform." Clinton caved in to the Republican tax-cutting mania by signing legislation reducing the capital gains tax, paid primarily by the wealthy.

The Democrats refused to vigorously contest the theft of the election by the Bush campaign. Congressional Democratic leaders pledged to work loyally with the White House and rubber-stamped every one of the right-wingers and wealthy corporate executives nominated by Bush to fill his cabinet.

The flabby opposition of the Democrats reflects their fear that any appeal to the working class to challenge the policies of the Bush administration could set in motion social forces that might spin out of their control and threaten the profit system. Like the Republicans, the Democratic Party is a political instrument of big business dedicated to the defense of capitalism.

As long as the working class remains tied to the Democratic Party it is paralyzed in the face of the escalating attack on living standards and democratic rights. What is required is the independent political mobilization of the working class on an anti-capitalist basis. This requires the construction of a new party of the working class based on a socialist program.



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