Bush's tax cut plan: The economics of the American plutocracy

Patrick Martin
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The tax cut plan announced Tuesday by President Bush is a transparent scheme to plunder the federal treasury and enrich the financial oligarchy. Nearly all of the $664 billion in tax cuts go to the top income brackets, while working class families, and especially the poor and unemployed, will receive little or nothing.

The centerpiece of Bush's program is the abolition of all taxation of corporate dividends, income that goes almost entirely to the wealthiest individuals in America. This huge tax break for the wealthy accounts for more than half the total, $364 billion over ten years.

In calling for the total elimination of the tax on dividends, Bush went beyond earlier predictions by the pundits and the expectations of even his most fervent corporate backers. Prior to the new year it was reported that Bush would call for a reduction in the tax by as much as 50 percent, itself a massive windfall for the rich that would have been considered politically unthinkable even a few years ago.

The ending of dividend taxation will have no effect on 401(k) accounts, because dividends paid to these retirement accounts are already non-taxable. The benefit will go entirely to those who receive dividends as direct income—disproportionately the rich. Approximately half of the $364 billion will go to the top one percent of Americans, those with incomes of $350,000 a year or more. Some 65 percent will go to the top ten percent. The bottom 80 percent of the population, in income terms, gets less than 10 percent of the tax break.

According to the calculations of the Tax Policy Center, a Washington research group, people with incomes over $316,895 will save an average of $13,243 on their taxes. People earning $21,350 will save an average of $47—less than $5 a year.

The other elements of the Bush tax cut plan also favor the rich, although less flagrantly than the abolition of taxes on dividends. These include:

* Accelerating tax rate cuts scheduled for 2004 and 2006, making them effective this year. The estimated cost is $114 billion.

* An immediate boost in the child tax credit from $600 to $1,000, costing $99 billion.

* Accelerating the phase-out of the so-called "marriage penalty," which affects upper-middle-class families with two incomes. The cost is $58 billion.

According to one study, 64 percent of the benefits from moving up the tax rate cuts scheduled for 2004 will go to the wealthiest 5 percent of the population, while only 7.7 percent goes to the bottom 80 percent. 70 percent of the benefits from accelerating the planned 2006 tax cuts will go to the top 5 percent of taxpayers, and only 6.4 percent to the lowest four-fifths. Only the increase in the child tax credit provides the bulk of its benefits to middle-income families.

Bush also called on Congress to make permanent the $1.35 trillion in tax cuts enacted in 2001, now scheduled to expire in 2010. This would include permanent abolition of the estate tax, which affects only those who inherit estates of $1 million or more.

If Bush succeeds in winning congressional approval of his latest tax cut plan—and there is little doubt that he will get most, if not all, of his proposed windfalls for the rich, given the bipartisan support for the 2001 cuts and the prostration of the Democrats—his administration will have largely eliminated taxation of the wealthy in the United States in the space of two years.

The White House and congressional Republicans seek to preempt criticism of the tax cut as a massive handout to the rich by accusing opponents of carrying out "class warfare." Their methods resemble those of a hold-up man who shouts "stop thief" as he flees the scene of the crime. Robbing the poor to pay the rich is perfectly legitimate, the Bush administration maintains, but it is "class warfare" to tell the poor they are being robbed.

The most immediate and direct beneficiaries of Bush's plan are the stock market and the largest Wall Street investers and speculators—precisely those layers of the ruling elite that accumulated the most massive fortunes in the stock market frenzy of the 1990s. That his scheme for "economic growth" at a time of rising unemployment and growing social distress is patently aimed, above all, at boosting share values on the stock market is highly significant.

It underscores the social character of his government as the political incarnation of the most predatory and parasitic sections of the financial oligarchy. It reflects, moreover, the increasingly decadent character of American capitalism as a whole, in which profit-making and the private accumulation of wealth by the privileged few are increasingly separated from the production process, and rely instead on swindling, accounting fraud and outright theft.

Leading corporate spokesmen and even some within the Bush administration hardly bothered to conceal the greed and self-interest that fueled their delight at the tax plan. They were all but salivating and rubbing their hands in anticipation of another massive diversion of social assets into their personal and corporate bank accounts.

R. Glenn Hubbard, chairman of the White House Council of Economic Advisers, suggested that the elimination of taxes on dividends could lift stock prices by 20 percent. Kevin Hasset, an economist at the right-wing American Enterprise Institute, said he was "surprised and happy" and added, "This will provide a lot of juice to the market."

Jerry Jasinowski, president of the National Association of Manufacturers, said, "The animal spirits of business have been depressed. There is no question but that the impact of this on confidence will be immediate. The first thing that chief executives do when they get up in the morning is check the price of their stock."

The Bush administration first indicated that a significant tax-cut bill would be introduced just after the November 5 election, in which the Republican Party gained control of both houses of Congress. At the time the size of the cut was pegged at $150 billion. By Christmas, the size of the cut was estimated at $300 billion, including a 50 percent cut in the tax on dividends.

On January 3, White House aides told the press that the administration would propose complete elimination of the dividend tax as part of a package costing $500-$600 billion. When Bush finally made his speech January 7 to the Economic Club of Chicago, the cost had ballooned to $674 billion—$10 billion in additional spending, in the form of subsidies to crisis-stricken state governments, and the balance going to tax cuts for the wealthy.

One Senate Republican tax aide described the political atmosphere in the White House as officials discussed whether to accelerate the child tax credit or the phase-out of the marriage penalty, and then decided to do both. "They've taken steroids," he told the *Washington Post*.

This near-frenzy represents a combination of greed and fear. The Bush administration not only wishes to enrich the wealthy, it also is looking desperately for a way to revive the stock market and prevent a financial calamity that would undermine it both internationally and at home.

The scale of the tax cut grew as the Bush administration became increasingly troubled about future financial prospects, and the impotence of the Democratic Party became ever more obvious. Nothing more than token opposition can be expected from the congressional Democrats, even though they could easily tie up and block the legislation in the Senate, where they hold 48 of 100 seats.

Congressional Democratic spokesmen have focused most of their criticism on the tax plan's fiscal irresponsibility, not its class character. Their alternative plan, introduced the day before Bush's speech, would provide only a rebate of $300 for individual workers or $600 for two-income families, and an extension of unemployment benefits, but no increase in federal spending to create jobs.

The administration is employing lies and double-talk to sell its package to the public. Bush is presenting a program tailor-made for the coupon-clipping elite as a "growth and jobs" plan to aid "working people." The administration claimed that 92 million taxpayers would benefit from the tax cuts and receive an average reduction of $1,083, although this figure combines the windfall going to the millionaires and the pittance going to the vast majority of working people. (If one millionaire gets $45,000 and 40 workers get $50 apiece, the "average" of their combined tax breaks approximates the administration figure.)

In pursuit of this massive handout to the rich, the most vulnerable sections of the working class are being held hostage. That is the meaning of Bush's decision to allow extended unemployment benefits to expire December 28 for nearly 800,000 jobless—with the total rising to over 1.5 million by mid-February. The Bush administration now proposes to renew the extension of unemployment benefits, but only if Congress ties the measure to the passage of hundreds of billions in new tax breaks for the privileged.

The White House aims to push the legislation through Congress under conditions where it will be overshadowed by impending war with Iraq, and the public caught off guard. This is more than a politically fortuitous bit of timing. Bush's war policy and his tax policy are of one piece: both involve the looting of vast resources—the oil of Iraq, the American treasury—for the benefit of the American plutocracy.