Welfare for the wealthy: the Bush tax plan

Part two of five articles on Bush's 2004 budget proposal

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This is the second in a series of articles on the social implications and political significance of the Bush administration's fiscal 2004 budget plan. Part one, "The Bush budget: blueprint for a right-wing assault on the working class", *was posted on February 11. Over the next three days, the WSWS will publish detailed analyses of the budget's impact on programs benefiting the poor, its implications for the federal Medicare and Medicaid health insurance programs, and its consequences for public education.*

The centerpiece of the Bush administration's budget is its $670 billion tax cut, largely targeted to the wealthy. The outlines of the plan were announced last month, in the week leading up to Bush's State of the Union speech. Since then, as the details have been fleshed out and the proposal subjected to more careful analysis, the staggering dimensions of the plan and its reactionary social implications have become more clear.

While there are a few provisions in the tax package that spread benefits more widely, such as the increase in the child tax credit to $1,000, the bulk of the tax cut is narrowly focused on the wealthiest Americans. Of the total of $670 billion in cuts, $364 billion, more than half, arises from the elimination of taxation on most corporate dividends.

The tens of millions of working and middle-class people with 401(k) plans gain nothing from the measure, because the dividends paid for shares held by the plans' mutual funds are already tax-free. The entire gain from this measure will be reaped by those who individually own large blocks of stock—the top 1 percent of American society.

Another $236 billion in the Bush plan comes from accelerating the tax cuts that were adopted in 2001 and scheduled to be phased in gradually over the next seven years. These include cuts in income tax rates and inheritance taxes that, again, largely benefit the rich.

The actual cost of this second round of Bush tax cuts is likely to be far higher than the government's $670 billion figure. According to an analysis by the Center on Budget and Policy Priorities, the tax cuts announced, proposed or envisioned by the Bush administration will cost $2.3 trillion in federal revenues over the next 10 years.

This includes $670 billion for the newly proposed cuts; $635 billion to make the cuts passed in 2001 permanent, rather than allowing them to expire as scheduled in 2010; $575 billion for relief of the Adjusted Minimum Tax, which currently affects only high-income taxpayers but would begin to hit large sections of the middle class within a decade; and $415 billion in interest costs due to the increased federal borrowing required to pay for the tax cuts.

When added to the $1.9 trillion cost of the 2001 tax cuts, the administration's plan amounts to a shift of $4.2 trillion in resources, the lion's share going to the richest fraction of the American population. This is a wealth transfer without precedent in history.

Even a plundering of the public treasury on this scale is not enough to satisfy the most rapacious elements of the ruling elite. Unexpectedly, and with no prior discussion with either congressional Republicans or the media, the Treasury Department released a proposal in late January to revamp the present structure of tax-sheltered savings plans, replacing existing 401(k) accounts and IRAs with three new types of accounts. These would greatly increase the amount of income that the wealthy could shield from any taxation.

The new proposals would allow a family of four to save up to $45,000 a year in investment accounts that would earn tax-free interest and capital gains, plus an additional $30,000 a year in employer matching accounts after 2006. This benefit would mean nothing for the vast majority of working people who live from paycheck to paycheck, spending all they earn. But it would be a huge bonanza for those—primarily the top 1 or 2 percent of US families—who have significant disposable income to save and invest.

A Treasury document acknowledges that “one-third of all Americans have no assets available for investment, and another fifth have only negligible assets.” In other words, over half the population could not invest a penny in such tax-free accounts.

The actual market is even narrower: according to one study, less than 5 percent of Americans make full use of current IRAs and 401(k) accounts, which are limited to $3,000 and $12,000 a year respectively. Even fewer would be able to utilize the $45,000 a year savings plan proposed by the Bush administration.

The new plan has two purposes, one short-run, the other more fundamental. In the near term, the savings plan would actually increase tax revenues, as upper income families cashed in their 401(k) and IRA balances—paying taxes on the income—and then invested in the new accounts. The Bush administration’s fiscal 2004 budget assumes the implementation of this plan, allowing it to show a lower deficit than otherwise.

In the long term, however, the move would virtually eliminate the present $160 billion in tax revenues from non-wage income. One analyst described it as a plan to subvert the income tax system as a whole, by ending any shred of progressivity and converting it into a system where the wealthy would be exempt and only those wholly dependent on wages would pay taxes.

The *New York Times* commented that this and other tax cuts would end “the taxation of inheritances and eliminate taxes on interest, capital gains and dividends.” The newspaper continued: “These are tax changes Ronald Reagan could only dream of.”

The *Washington Post*’s financial planning columnist, Albert Crenshaw, calculated that based on the maximum contributions allowed under the Bush plan, a wealthy family could build a personal fortune of $154 million for each child without ever paying taxes. “Ultimately,” he wrote, “we could end up with a Leona Helmsley tax code—one in which only the little people pay taxes.”

There is another important practical consequence of the change in retirement saving accounts. It would remove one of the principal incentives for companies to create pension plans for their rank-and-file employees. Under current rules, if a company owner wants to put more than $6,000 a year into a tax-sheltered retirement account for himself, he must offer a pension plan covering workers as well as executives. Under the Treasury plan, such an owner could set aside $30,000 a year plus $7,500 a year for each of his children, without offering any pension plan to employees.

The Treasury plan also weakens current limits on the proportion of a corporate pension plan’s benefits that can go to top management, rules established to guard against corporate abuse. The past year has seen a series of spectacular accounting scandals, cases of executive fraud, and multimillion-dollar payoffs to CEOs and other top executives, all of which have contributed to corporate collapses which deprived workers of their jobs and pensions. This has not prevented the Bush administration with coming forward with a proposal to give CEOs greater license to plunder their companies.

No American tax “reform” plan would be complete without an array of tax breaks written especially for particular companies and industries, amounting to a crude payoff for their lobbying dollars. Bush’s February 3 budget message was no exception. Among the tax windfalls he proposed were:

* tax credits for business research and development, costing $68 billion over ten years;
* tax breaks for private medical savings accounts, worth $5.1 billion to the company that is the principal marketer of such financial instruments, the Golden Rule Insurance Company of Illinois, a big donor to the Republican Party;
* a $16.1 billion tax credit for real estate developers and homebuilders;
* a $712 million tax credit for companies that convert landfill gases into electricity, sought by Waste Management, the big operator of landfills;
* and an $891 million deduction for companies that donate leftover food to charity, sought by the pizza franchise industry. The only limitation on this effort to make it profitable to deliver stale pizza to soup kitchens is a requirement that donated food be “apparently wholesome.”