US budget and tax debate

Bush, Congress wrangle over how best to fatten the rich

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No satirist of the wealthy, no populist critic of corporate greed could have devised a more absurd or disgusting scenario than that being played out in Washington this month, as the Bush administration, the House of Representatives and the US Senate wrangle over the exact shape of a tax cut that will pour hundreds of billions of dollars into the pockets of the richest Americans.

Eighteen million American workers, either unemployed or underemployed, are presently without full-time work. Millions of these jobless have exhausted their unemployment benefits. Severe poverty is on the increase, especially for black and other minority families. More than 41 million people lack health insurance. Schools and other public services are crumbling, while nearly every state government faces a huge deficit and is carrying out draconian cuts in social spending.

Yet the domestic agenda of the Bush administration and the congressional Republicans consists of a perpetual search for new ways to transfer the resources of the federal treasury into the hands of the super-rich. Currently the White House and Congress are squabbling over whether to eliminate the taxation of corporate dividends or cut the tax rate for capital gains. Either way, the vast bulk of the tax cut will go to the richest one percent of the American population.

Bush initiated the latest round of tax cuts for the wealthy with his proposal in January for a cut of $726 billion over the next decade, more than half of it from eliminating the tax on corporate dividends. After resistance from a handful of Republican senators to such a large tax cut on the eve of war—and with predictions of a federal budget deficit approaching $500 billion—the Senate Republican leadership slashed the proposed cut to $350 billion.

The House Republican leadership countered by reducing the anticipated cost of the tax cut to $550 billion. They revised the tax cut extensively, dropping the proposed change in taxation of dividends and promoting instead a sharp reduction, to only 15 percent, in the tax rate for both dividend income and capital gains. This would mean that wealthy stock speculators would have the same tax rate on their multi-million-dollar trading profits as the lowest-paid workers on their minimum wage paychecks.

Both bills were passed last week by their respective houses, each by a narrow margin and each in near-unanimous party-line votes. The House of Representatives voted May 19, approving the tax cut legislation by 222 to 203, with only three Democrats supporting the bill and only four Republicans opposing it. The Senate voted by a 51-49 margin, with two Republicans opposing and two Democrats supporting. The two bills will now go through a reconciliation process, leading to a final version to be voted on by the two houses of Congress and signed by Bush.

The House bill cuts the tax rate for dividend income from 38.6 percent to 15 percent for high-income Americans, and for capital gains income from 20 percent to 15 percent. The Senate version phases out the dividend income tax entirely, but then restores it in 2007 in a bookkeeping maneuver to lower the total projected cost.

Both bills accelerate the tax cuts already voted by Congress in 2001. These were originally to be phased in over a ten-year period, but under the bills passed by the House and Senate the cuts scheduled for 2004 and 2006 would be instituted immediately, retroactive to January 1, 2003.

The House tax cut is even more heavily skewed to the wealthy than Bush's initial proposal, since capital gains are monopolized by the richest one percent. A joint study by the Urban Institute and the Brookings Institution found that a taxpayer with an income of $1 million would receive a cut of $105,636 under the House plan, compared to $89,509 under the Bush plan. Middle-income taxpayers, with family incomes between $50,000 and $75,000, would get only $712 under the House plan, or $734 under the Bush plan. The average working-class taxpayer, with a family income between $40,000 and $50,000, would receive only $456 under the House plan, or $482 under the Bush plan.

Senate Republican leaders pushed a version of the tax bill through the Senate Finance Committee that included no cut in the dividend tax, because of opposition from a Republican member of the committee, Senator Olympia Snowe of Maine. Once the bill was on the Senate floor, however, a new version was substituted that included the dividend cut. The key vote to approve the substitution came by 51-50, with Vice President Dick Cheney casting the tie-breaking vote for legislation that will cut his own personal taxes by more than $100,000 a year.

There are two principal aspects of the latest round of Bush tax cuts, whatever the details of the legislation that finally emerges: irresponsibility and greed.

As a fiscal measure, the tax legislation brings to the federal government the methods of Enron, Arthur Andersen and WorldCom. Only the scale is different, as the Bush administration cooks the books to the tune of trillions rather than billions or tens of billions of dollars.

One estimate, by economists for Citigroup, projects a $500 billion budget deficit for the current fiscal year, nearly double the previous largest federal deficit, with the prospect of a rapid escalation in red ink in succeeding years. Already the Bush administration is proposing the largest ever increase in the federal debt ceiling, a whopping $984 billion, which would swell the total federal debt to $6.4 trillion.

Both the White House and congressional Republicans deliberately understated the full cost of the tax breaks for the wealthy. Bush's original plan for $726 billion in cuts over 10 years could end up costing twice as much, given its optimistic economic assumptions.

The House and Senate versions are even more fictitious, making use of a device called "sunsetting," in which various tax breaks are instituted and then scheduled for elimination four or five years hence. This makes the ten-year projection for the budget look more practicable, although none of those involved actually believes that the tax cuts, once adopted, will ever be rescinded.

Sunsetting was first instituted in the 2001 tax cut, where the White House based its financial projections on the assumption—accepted by Congress—that the entire cut would be repealed in 2010. The purpose of this convenient fiction was to keep the projected ten-year cost of the tax cut within limits set by a congressional budget resolution.

The House tax bill sunsets many of its provisions, including the accelerated child tax credit, small business tax relief, and the elimination of the so-called marriage penalty. All these measures will be phased in from 2003 to 2005, then rescinded, to lower the total projected cost. The Senate bill does the same thing with the dividend tax, which is to be reduced by 50 percent in 2004, eliminated entirely in 2005 and 2006, then restored in full for 2007. These contortions are required to keep the total cost of the bill below $350 billion. Without "sunsetting," the cost could approach $1 trillion.

So bizarre are the financial provisions of the Senate bill that billionaire Warren Buffett, the second wealthiest man in the United States, wrote an op-ed column for the *Washington Post*, published May 20, opposing the plan as "Enron-style accounting." Buffett pointed out that the tax legislation would drastically slash his own taxes, while leaving the taxes of ordinary workers at his investment company, Berkshire-Hathaway, essentially unchanged. He calculated that he could end up paying taxes at a rate only one-tenth that levied on his own receptionist.

The Bush White House and congressional Republicans regularly deride such comparisons as "class warfare," as though it was illegitimate to calculate how much the tax cut will benefit various socio-economic groups. The fact remains, however, that under the House Reupblican plan, a millionaire will receive a tax cut 219 times that provided to an average working-class family.

The progress of the tax cut bills through the House and Senate has demonstrated once again the combination of complicity and impotence that characterizes the Democratic Party, which is unable and unwilling to conduct any serious struggle against the policies of the Bush administration. As in 2001, when Democratic defectors in the Senate pushed through Bush's $1.35 trillion tax cut for the wealthy, just enough Democrats have backed the White House in 2003 to ensure passage of the legislation.

House and Senate Democratic leaders have criticized the tax cut legislation largely from the standpoint of its fiscal recklessness. But the Democrats do not challenge the fundamental basis of the Bush administration's economic policy, which is the glorification of untrammeled "free market" capitalism, and the claim that cutting taxes for the wealthy will result in more jobs for working people. They essentially accept the plutocratic mantras proclaimed by such Republican leaders as Charles Grassley of Iowa, the chairman of the Senate Finance Committee, who recently declared: "You've got to remember that it takes people with money to create jobs."

Three or four decades ago liberal Democrats, with the support of a section of Republicans, would have contested such claims, and proposed the creation of jobs by the federal, state and local governments as an alternative, both to put the unemployed to work and to meet social needs in areas such as education, health care and social infrastructure. But the official political spectrum in the United States has shifted so far to the right that not a single prominent Democrat would dare to propose the creation of public works jobs—or any other measure remotely smacking of wealth redistribution in favor of working people—as an answer to recession.

Instead the Democrats, offering a "targeted" tax cut of barely $100 billion—a drop in the bucket in an $11 trillion economy—leave the field open to Bush to argue that his much larger plan is a more serious measure for stimulating the slumping US economy.

As for the claim by the Democrats that they oppose the unfairness of the Bush tax cuts, this is belied by their own role in passing the 2001 cuts, which went overwhelmingly to the upper income group, and their own dependence on corporate interests and the wealthy. Under Reagan, Clinton and now Bush, the Democratic Party joined forces with the Republicans to slash social spending, abolish welfare and undermine virtually every federal program targeted at the poor, the unemployed and the low-paid.

It is becoming increasingly difficult to disguise the fact that this right-wing big business party has no principled differences with the Republicans when it comes to the attacks on the working class that have become a permanent feature of American politics over the last quarter century.

The essence of the differences that do exist reflect the fear of a section of the American ruling elite, generally represented by the Democrats, that the irresponsibility of the Republican administration could produce a financial crisis in the United States with dangerous social and political consequences.

The defense of the interests of working people requires a political break with the Democratic Party and the building of a new political party, representing the interests of the working class and fighting for a socialist program committed to achieving social equality and the reorganization of economic life to serve the needs of the vast majority, not private profit.