

Supply-Siders Go to War

When Abraham Lincoln faced the dissolution of the nation in the early 1860s, he imposed new taxes on the wealthy to help pay to save the Union. When Franklin Roosevelt took America to war against the Nazis, he sharply increased taxes on businesses and the rich to help fund that crusade. Now George W. Bush is leading a new battle against international terrorism, and insists that as part of that effort, we need to *cut* taxes on corporations and the best-off Americans!

In late September, Bush and congressional Democrats seemed to have reached general agreement on what should be done to boost our sagging economy. The goal of saving the Social Security surpluses for the future would have to be put on hold for a while to deal with the current crises. But both sides said they accepted the advice of Alan Greenspan and other economists that additional stimulus measures should be temporary to avoid exacerbating our long-term fiscal problems, which are already keeping long-term interest rates too high. Moreover, they agreed, relief measures should be targeted to help those hit hardest by the downturn. It all sounded so “bi-partisan,” so surprisingly sensible. Had our 43rd President really grown up in office?

In early October, however, Bush changed his tune dramatically. He repudiated the consensus agreement that a stimulus package’s fiscal effects should be temporary. He nixed plans to help people who’ve lost their jobs and health insurance, in favor of a package limited exclusively to tax cuts. In short, rather than focusing on short-term assistance to people and areas that need it most, Bush now wants to give huge, permanent tax breaks to those who need help the least.

On the corporate side, Bush would repeal the corporate minimum tax that now discourages corporate tax sheltering and forces some otherwise low- and no-tax large corporations to pay at least something in taxes. This would officially cost at least \$22 billion over 10 years, and more likely two or three times that much. He wants to let companies take even more excessive “accelerated depreciation,” that is, write-offs for capital expenses they haven’t actually incurred, thus permanently expanding what’s already the biggest corporate tax loophole by \$265 billion over the next decade. And he proposes to make it easier for corporations with “tax losses” to use them to apply for refunds of taxes they paid in the past, with a 10-year cost of \$15 billion.

Perhaps worst of all, Bush wants to speed up the reductions in the top personal income tax rates enacted earlier this year, so that they take full effect starting in 2002 rather than in 2006. If Bush gets his way, next year the top income tax rate would drop to 35 percent, compared

to 38.6 percent under current law. The 35 percent rate would go to 33 percent, the 30 percent rate to 28 percent, and the 27 percent rate to 25 percent. The current 10 percent and 15 percent rates would remain unchanged.

The benefits of these proposed income tax rate cuts are extraordinarily skewed. Well over half would go to the richest one percent of all taxpayers, whose average 2002 tax cut would exceed \$16,000. Four-fifths would go to the best-off ten percent. In contrast, for three out of four taxpayers, the president’s proposal would provide exactly zero in tax reduction.

If adopted, accelerating the income tax rate cuts would reduce taxes on the wealthy by \$122 billion over the next four years. That’s bad enough, but the long-term budget and tax policy effects are even worse. Bush’s people disingenuously argue that speeding up the tax cuts would be only a “temporary” measure, since they’ll eventually happen anyway—a line that has fooled some gullible journalists. But the truth is that Bush and his advisors fear the growing public sentiment in favor of repealing the impending tax cuts in light of our new spending needs and long-term fiscal problems. They want to lock the tax cuts in now, before that sentiment becomes politically irresistible.

To be sure, Bush does propose a tax-cut sop for the Democrats. He’s finally willing to extend the 2001 tax rebates to some 35 million taxpayers who didn’t get them or got less than the full amounts because they didn’t owe enough in income taxes, although they did pay plenty in payroll taxes. This \$11 billion or so in one-shot rebates will be welcomed both by the economy and those who receive the checks, but it won’t come close to justifying the huge negative effects of the rest of Bush’s tax proposals.

Our President’s supply-side zeal to co-opt our national emergency by showering more tax breaks on corporations and the wealthy must be resisted. His plan would use up funds that could otherwise go to help those most in need. It would be ineffective as a demand stimulus—indeed, it’s counterproductive, since by making our future fiscal problems even worse, it will push up long-term interest rates. Finally, it’s an outrageous slap in the face to ordinary, patriotic taxpayers who are so willing to sacrifice for the good of America.

Rather than speeding up his beloved future tax cuts, our President should admit that they’re unaffordable and call for their delay or repeal. Then he can get back to working with Democrats on an economic recovery package that actually makes sense.

—Robert S. McIntyre, *October 9, 2001, Issue #19*