THE TAXONOMIST

President George W. McKinley?

Bush waxes nostalgic for robber-baron-era tax policies

BY ROBERT S. McINTYRE

Is George W. Bush hoping to take us back to the 19th century on tax policy?

Prior to the 20th century, except during the Lincoln dispensation, the federal government relied almost entirely on regressive consumption taxes to pay its bills. This system of high taxes on the poor and middle class but hardly any tax burden on the rich and powerful reached its apotheosis under Republican President William McKinley, who worked with GOP political boss (and Karl Rove hero) Mark Hanna to raise consumption taxes on many ordinary commodities to almost 50 percent in the 1897 tariff bill.

Thanks to progressive leaders like William Jennings Bryan and Theodore Roosevelt, that cruelly unfair approach to taxation was eventually abandoned. But as CBS's Dan Rather brashly put it on election night, conservative Republicans now control all branches of the federal government, "the White House, the House of Representatives, the Senate and the Supreme Court." This ominous development may embolden Bush to try to turn back the clock a century or so on taxes.

Bush's Treasury Secretary Paul O'Neill is pushing his department to come up with big-picture tax changes. He's said to be particularly interested in the notion of replacing the corporate income tax with a national sales tax—or a "value-added tax" variant thereon. Despite his staff's expressed qualms, O'Neill apparently doesn't grasp that elimination of the corporate income tax would probably doom the personal income tax, too—and O'Neill's boss, George W., probably wouldn't care even if he did understand it.

Without a tax on corporate profits, people could easily avoid taxes on their investment income simply by incorporating their portfolios. And as economists are fond of telling us, an income tax that doesn't tax investment income isn't an income tax any more; it's a consumption tax. Indeed, it may well be even worse than that. Tax lawyers and accountants will inevitably come up with hard-to-stop schemes to let their wealthy clients go beyond indefinite tax deferral on their investment earnings and actually spend the money tax-free—say by borrowing against their incorporated portfolios.

O'Neill's consumption tax dreams may be too much of a nightmare for most Americans to tolerate, or for any politician to seriously push. But it's rash to assume, as some observers optimistically argue, that now that Republicans are fully in charge, they'll have to balance their zeal to cut taxes on the rich against the need to pay for all the programs they support. After all, when the Republicans controlled both houses of Congress in early 2001, they passed Bush's gigantic tax cut program without hesitation. Although a front page article in the Nov. 11 *Washington Post* asserts that today's "Republican leaders are ratcheting back expectations and hoping to press forward next year with a modest tax agenda that is probably more symbolic than substantive," the truth is that the items on the GOP tax agenda for next year are still hugely regressive and expensive.

For starters, Republicans hope to extend the Bush tax cuts past their scheduled 2010 expiration date. No matter that this "modest" proposal would cost a staggering $5.5 trillion dollars from 2011 to 2020. The *Post* assures us it's "largely symbolic" since "[n]othing Congress does is permanent." Right.

Last January, Bush pushed through Congress the biggest corporate tax cut in a generation, helping send corporate tax payments down to their second lowest level as a share of the economy since the 1930s. It was supposedly temporary, but business lobbyists, who purport to feel "neglected" by Bush, are now clamoring to make it permanent, at a cost of $264 billion from fiscal 2003 through fiscal 2012. The *Post* dismisses expected GOP support for this change, along with another $100 billion or so in likely tax cut proposals, as "small bore"—and tells us to be comforted that a half trillion dollars in still more tax reductions have been "pushed to the back burner" for now due to their cost.

How does our "modest" Republican government propose to pay for this enormous new round of tax cuts? R. Glenn Hubbard, the supply-sider who heads Bush's Council of Economic Advisers, says that borrowing looks pretty good to him. I guess if you're indifferent to financing a fifth of all non-Social Security spending—essentially, the entire Defense Department—with debt, as we do now, then even more deficit spending in the future makes sense, too.

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