Old Wine in New Bottles

Bush's "new" economic team will only give us more of the same

When George W. Bush announced his revised economic team in early December, the press speculated that the change might bring a glimmer of fiscal sanity to the administration's economic policies. Don't bet on it. As Stephen Moore of the anti-tax, big-deficit Club for Growth cult put it, whatever their past records, the new boys will "drink the Kool-Aid." And sadly, our President will keep proposing the same solution to every problem: more tax cuts for the rich. So here are a few things to keep in mind as this year's tax debate unfolds.

The myth of the "double taxation of dividends." The newest item on Bush's tax-cut agenda is to reduce or end taxes on dividends. Depending on the details, this could be very expensive, not to mention hugely regressive. In fact, most of the $25 billion a year in tax cuts from wiping out personal income taxes on dividends would go to the best-off one percent of the population.

In defense of this latest upper-income giveaway, Bush claims he's merely serving tax equity. Corporate profits are unfairly "double-taxed," he says, first when companies earn them and second when they're distributed to shareholders as dividends. This argument, however, has two defects: it's conceptually unsound and factually untrue.

When you think about it, the number of times something is taxed isn't an enlightening concept. Instead, it's the total amount of taxes, whatever the number of levels, that matters. Who wouldn't feel better, for instance, about paying two taxes of 10 percent each rather than a single tax of 40 percent?

So the real question is: does the so-called "double tax" on corporate profits cause them to be overtaxed compared to other kinds of income? It sure doesn't look that way.

Let's start with the corporate income tax, which, as is well known, corporations have become are extremely agile and aggressive at avoiding. CSX, the company run by Bush's new Treasury Secretary, John Snow, is a case in point. Snow brags in CSX's latest annual report that his firm "pursue[s] all available opportunities to pay the lowest federal, state and foreign taxes . . . [and] works through the legislative process for lower tax rates." As a result of all that clever accounting and lobbying, CSX paid nothing at all in federal income taxes on its $934 million in U.S. profits over the past four years. Instead, it got tax *rebate* checks from the Treasury totaling $164 million. Obviously, CSX's profits can't possibly be "double taxed."

CSX's tax dodging may be particularly egregious, but most other companies do their darnedest to avoid taxes, too —so much so that last year, less than half of actual total corporate profits were subject to corporate income tax. As for personal taxes on dividends, well, most dividends are tax-exempt, too, because they're paid to pension funds and tax-exempt retirement accounts.

Here's the bottom line: last year, barely over half of corporate profits were subject to tax at any level. In other words, the so-called "double tax" doesn't come close to taxing corporate profits even once.

If at first you don't succeed, make the same mistake over again. The so-called "stimulus bill" enacted in January of 2002 showered $114 billion in new tax breaks on corporations over three years, supposedly to encourage more investment. It was an odd approach, given that overcapacity and lack of demand were—and are—our problem. So it's hardly surprising that despite all the tax subsidies, the Business Roundtable, which represents the country's 200 largest corporations (who got most of that money), sadly reported this November that three-fifths of its members plan to lay off workers in 2003, and more than 80 percent will not increase their plant and equipment investments.

Those failed business giveaways were enacted in lieu of a stimulus package that might have actually done some good, by putting money in the pockets of consumers who'd spend it. But rather than learn from his mistakes, Bush wants to make the corporate tax breaks even bigger.

Cutting taxes in 2011 to spur the economy now? The other major item in Bush's tax package would extend his 2001 tax cuts past their scheduled 2010 sunset date. The President's argument is that rich people will work harder and save more now if they're assured of tax cuts in 2011 and 2012. This argument seems perfectly stupid to me, but is the one dearest to the President's supply-side heart.

Finally, in case you haven't noticed, Bush's previous tax cuts have already helped produce a pretty stimulative fiscal policy. Federal deficits outside of Social Security are likely to exceed 3 percent of the GDP this year—and will be considerably more than that if we go to war. But because of the President's warped priorities, we've gotten very limited bang for the buck from all those stimulus dollars. It would be nice to do something more useful to spur the economy, but to afford it we'll first have to repeal some of Bush's costly mistakes.