THE TAXONOMIST

The 5th Annual Bush Tax Cut: How Big? How Bad?

By Robert S. McIntyre

The House and Senate are now negotiating the fifth annual Bush tax cut. How awful it will turn out remains up in the air.

Last spring, Congress agreed on a budget resolution calling for another $70 billion in tax cuts over the next five years. But then the hurricanes came, the Iraq war raged on, gasoline and heating oil prices zoomed upwards, and with continuing huge budget deficits, important public programs were placed on the chopping block.

In the face of these events and at the insistence of Republican senator Olympia Snowe, of Maine, the Senate wisely decided to scale back its tax-cut plans. Most notably, it dropped President Bush's $51 billion proposal to extend his capital gains and dividend tax cuts—currently slated to expire after 2008—for another two years. Although senators couldn't resist lobbying pressure to extend an array of other expiring tax breaks—mostly foolish subsidies for corporations—they more than offset the $32 billion cost of these measures by restricting tax shelters and oil company loopholes.

Those decisions reduced the net cost of the Senate bill to $37 billion, involving a $30-billion patch to the alternative minimum tax (thus keeping 15 million taxpayers, most of them earning between $80,000 and $160,000, out of the AMT for another year) and $7 billion in tax breaks to encourage reconstruction in areas devastated by the recent hurricanes. I don't want to go overboard in praising the Senate—the idea of enacting any tax cut given our catastrophic budget situation seems preposterous to me. But by current standards, the Senate tax bill is pretty doggone responsible.

The Senate's approach was not greeted with enthusiasm in the House. Indeed, you might say that hell has no fury like a Republican congressman whose tax-cut plans are scorned. The petulant House actually expanded its tax cut package, up to a total of $118 billion over ten years—$81 billion more than the Senate bill! Besides AMT and hurricane tax breaks, the House passed corporate tax break extensions similar to the Senate's but with no offsetting revenue increases to pay for them. Most important, the House plan extends the President's beloved capital gains and dividends tax cuts, more than half of which will go to the best-off one percent of taxpayers. It was a party-line vote.

As many have noticed, the $51 billion cost of the House's 2009 and 2010 capital gains and dividends tax cuts is almost exactly equal to the $50 billion that the House wants to cut from low-income health care programs, student loans and so forth over the next five years. But don't suppose that Republican politicians are even slightly embarrassed about taking money from the poor to pay for tax cuts for the rich. Or that they've woken up to the disastrous fiscal consequences of their tax-cutting zeal. On the contrary, they're in total denial.

"By cutting taxes, ... you generate an enhanced flow of revenues to the Treasury," asserted California Republican Rep. David Dreier, chairman of the House Rules Committee, last week, calling "pathetic" those nerdy arithmeticians who suggest otherwise. "The deficit is down because tax revenues are up. Do not defeat this bill and raise taxes. Let's stop tax increases," chimed in Wisconsin Republican Rep. Paul Ryan, somewhat incoherently. "Tax relief for dividends and capital gains . . . has helped produce substantial additional revenues that have reduced the deficit," claimed the White House.

It's hard to tell if these people are loony or just totally cynical. For a reality check, consider some recent evidence. Quite simply, revenues are way down, not up, and deficits have skyrocketed, not diminished. In the just completed fiscal year, one out of every four dollars in federal spending outside of Social Security was paid for with borrowed money. That $501 billion shortfall occurred mostly because personal income tax revenues as a share of the economy were 29 percent lower than they were in fiscal 2000, the year before Bush took office and started slashing taxes. Just this past November, the monthly budget deficit hit $83 billion, its highest November total in U.S. history according to the Treasury Department. If this is fiscal success, it's hard to imagine what failure would be.

Rep. Gene Taylor, a conservative Democrat from Mississippi, didn't mince words in condemning his Republican colleagues: "You want to know what this House's priorities are? It is not with the average Joes. It is with the political contributor class. . . . So what do you bring to the floor? . . . It is a tax break for the wealthiest 1 percent of America who, by the way, write the big checks to the political parties. Tell me your priorities are not screwed up, because I am going to tell you they are."

Will Olympia Snowe and the handful of other Republican "moderates" who hold the balance of power in the Senate stick by their guns and stand up for a modest measure of tax sanity and the Senate's less onerous program cuts for the poor? Or will the screwed up priorities of the President and House Republicans prevail once again? We'll find out soon enough.

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