

The American Miracle

A project of the Today Foundation

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"Tax policy to move toward our economic potential."

TAX AND SPEND UPDATE

From the American Miracle Project, Richard H. Collins, chairman

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Dear friends, the following articles highlight what Congress is discussing regarding taxes to date. Thought you might be interested in these editorial perspectives. Hope you are enjoying your summer.

Democrats' Tax-Cut Follies

Democrats and Republicans took their tax-cut differences to a White House summit Monday. Not much was accomplished. The sides merely solidified their differences. The GOP is pushing (for now) for a cut worth roughly \$800 billion over 10 years; Democrats are playing word games.

The GOP has several plans. The best is House Ways and Means Chairman Bill Archer's 10% across-the-board cut. Predictably, it's the plan that draws the most Democratic ire – probably because it's the only plan that cuts across special interest groups to benefit every taxpayer.

Charles Rangel, D-NY., the top Democrat on the House Ways and Means Committee, dismisses Archer's plan, saying it's "press release" and "aimed at the wealthy Republican base." He complains that tens of millions will be denied a tax break while wealthy will get big cuts.

It's a theme the White House regularly pulls from its rotating list of misleading objections to tax cuts.

That's only the start of Democrats' kill-the-truth campaign. Count on them to use national debt (see accompanying article), Medicare, Social Security and, of course, the children to keep your money.

If we're to have any hope for tax cuts, the GOP must not cave in when the ss-warfare rhetoric heats up. It must stand firm. How?

- The Tax Foundation says that in 1995 – the latest year from which figures are available – the top 1% of earners paid 30% of federal income taxes. That same group earned only 14.6% of U.S. income. The top 1% was defined as those who make more than \$209,105 a year.
- The top 5% pay 48.8% of federal income taxes, even though that group made less than 29% of all income. The top 5% was everyone who made more than \$96,104 a year.
- The top 25% – those who earned more than \$44,147 a year – bore a disproportionate burden. The top quarter paid more than 80% of the taxes despite earning less than 74% of the income.
- In fact, the top half, which included everyone who made more than \$22,361 a year, paid a whopping 95.4% of the taxes. The top half's income share was 85.5%.

That didn't leave much of a burden for the lowest-income earners – the bottom 50%. That group paid 4.6% of the taxes while it took in 14.5% of the income.

Only this group had a tax burden smaller than its proportion of income.

It doesn't matter how Democrats and timid Republicans frame it. They can't get away from one fact inconvenient to their demagoguery: An across-the-board tax cut doesn't benefit the "rich" at the expense of the poor.

Yes, a poor family's tax cut may be only \$200 while a middle-class family might get \$2,000 in relief. But that's the difference between a 10% cut on a \$2,000 tax bill and a 10% cut on a \$20,000 tax bill.

What makes Democrats' efforts to block tax relief even more galling is that they say tax relief is unfair to those who pay no income taxes at all – they won't get any breaks. Rangel himself estimates the number of people who pay no income taxes to be about 45 million.

Yet many receive tax refunds through the earned-income credit. Do the Democrats really want to alienate those who pay the taxes on behalf of those who don't? Or are they just using an artifice to keep the fires of class warfare stroked?

We suspect the latter.

We hope the GOP can find the gumption this time to push across-the-board tax relief through Congress. Let President Clinton veto the cut if he doesn't like it. Then let him explain to the 60 million taxpayers who bear the largest tax burden: I won't let you keep more of what's yours because millions of workers who don't pay taxes anyway couldn't get the same tax break.

If that's what passes as an intellectual argument among Democrats these days, then they are in big trouble.

Suddenly, The Debt Matters

The U.S. Treasury has been carrying debt for 164 years. Leave it to President Clinton to use it as a new excuse to block tax cuts for working Americans. He claims using the surplus to pay off debt would benefit them more. This may be Clinton's biggest whopper yet.

"If we take this country out of debt for the first time since 1835, then average people are going to have more money in their pockets than if we keep the country in debt and give them a tax cut," he told CNBC with a straight face.

Interest rates are tied to the debt, he argues. Cut the debt, lower rates. Americans will save money on new mortgages and refinancings.

Sounds good. Too bad he can't back it up.

The data show no link. Take the past 20 years: The debt, now at \$5.6 trillion, has ballooned by nearly six times. Yet long-term interest rates have been cut in half. They're tracking inflation, not the debt.

Faced with such inconvenient facts, Clinton bases his claim on the theory that government competes against consumers when it borrows, thereby driving up rates.

Even the theory is wrong.

Government doesn't dry up the pool of money when it borrows. It sells bonds to buy things. That spending restores the money that looks like it's being crowded out. The same number of dollars are available to lend.

(Keep in mind, too, that government borrows to avoid raising your taxes for the time being.)

Just in case his argument doesn't fly, Clinton dispatched his chief of staff, John Podesta, to the airwaves to argue another point. Using a big color chart, Podesta claimed on ABC's "This Week" that the House's \$864 billion tax-cut plan will actually cost taxpayers \$179 billion.

That's "the interest government will have to spend because it's not paying down the national debt," Podesta said.

Podesta sneered that Republicans "haven't accounted" for that, suggesting that they aren't good stewards of your cash. Meanwhile, he said Clinton is "the most fiscally disciplined president we've seen in a long time." (Or at least since he tried to create a \$622 billion universal health-care bureaucracy.)

Enough Orwellian tripe. Bottom line: Clinton is more desperate than ever to erect hurdles to tax cuts. When the surplus was thought to be smaller, he was effective in claiming it to save Social Security and Medicare. Now that it's projected to be much bigger, he's got to find a new reason to bash tax cuts. Hence, this bogus debt argument.

But Americans are no fools. They know the difference between money in hand from tax cuts and Clinton's illusory benefits from debt cuts.

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