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Why Bush's Tax Cut Won't Help the Economy

By David Martin and Chris Hartman and Ben Robinson, [United for a Fair Economy](#)

April 7, 2003

George W. Bush's tax cut plan is unfair and ineffective. Its centerpiece, the elimination of the tax on stock dividends, is targeted almost exclusively to the well-off. This tax cut will generate lots of tax breaks for the top 1 percent and lots of fees for Wall Street, but it won't help anyone get a job. The only thing this plan "stimulates" is more economic inequality in the U.S.

A tiny bit of good news, maybe

There was a tiny bit of good news recently. On March 25, the Senate voted 51-48 to limit tax cuts to \$350 billion over the next 10 years, rather than the \$725 billion package that President Bush wanted and which was passed by the House. The vote makes it possible that the crown jewel of the tax cut, the elimination of the tax on dividends, will be scaled back when the House and Senate meet in conference committee to craft a compromise.

But that's not a certainty. As the New York Times observed, "With the Senate and House controlled by Republicans, the conference committee is sure to be dominated by lawmakers loyal to Bush. So the measure that comes out of the conference committee will probably be much more favorable to the president's position than what the Senate approved Tuesday and may include all or nearly all of the president's tax proposals."

Moreover, we have to ask: why are we even *talking* about tax cuts for the wealthy right now? The federal deficit is spiraling into the sky, state governments are broke, and there's a war on. We ought to be raising, not lowering, taxes on the wealthy, just as we've done during every previous U.S. war to limit cuts in social spending.

The original Bush tax cut: a summary

Total cost over 10 years: \$726 billion

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Item	10-year cost in \$billions
Eliminate tax on dividends	\$396
Increase child tax credit from \$600 to \$1,000	\$90
Accelerate income tax cuts for the top 4 brackets	\$74
End "marriage penalty"	\$55
Expand 10% Tax Bracket	\$45
Increase alternative minimum tax threshold	\$37
Increase tax breaks for small business equipment purchases	\$29

The dividend tax cut is unfair

Why in the world should income from investments be taxed at a lower rate than income from work? Eliminating the tax on dividends will primarily help the wealthy. Two-thirds of the dividend tax cut benefit will go to the top 5 percent. More than \$4 out of \$10 will go to the top 1 percent, people making more than \$330,000 a year.

One quarter of the benefit will go to the top 0.2 percent, people making more than \$1 million a year. That's as much as the bottom 90 percent combined will get from the dividend tax cut.

Tax filers making more than \$1 million a year will get \$27,100 a year. Tax filers making between \$30,000 and \$40,000 will get only \$42 a year.

There is no such thing as a broad "investor class" that will benefit from the dividend tax cut

Only half of all Americans own any stock at all. Most of the stock owned by middle class folks is tied up in 401(k) plans, which will not benefit from the dividend tax cut. Any short-term boosts in stock prices in middle-class portfolios will likely be offset by higher interest rates (see below).

One beneficiary of the dividend tax elimination will be Wall Street firms, who will generate huge fees helping corporations restructure their businesses to pay out more dividends. (Of course, Wall Street firms are leading campaign contributors to both parties.)

The dividend tax cut will raise interest rates

As dividend-paying stocks become more attractive to investors, people will pull money out of the bond market, leading to higher interest rates. That means higher mortgage and car loan rates, and higher borrowing costs for small businesses and state and local governments.

The "double taxation on dividends" argument is misleading at best

Proponents of the dividend tax cut say that corporate profits are taxed twice,

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once with the corporate tax, and again with the tax on dividends.

You know, it's funny: The anti-tax crowd always used to say that corporate taxes were just passed along to consumers. Now they claim that, no, it's the shareholders who pay corporate taxes.

But as economist Dean Baker of the Center for Economic Policy Research points out, that's not even true. "The courts have repeatedly ruled that corporations are legal individuals and altogether distinct from their shareholders," Baker writes in the March 10, 2003 Economic Reporting Review. "Current law taxes the income that corporations receive. It also taxes the income that shareholders receive as individuals, just as it taxes the income that workers receive from corporations."

Under our system, the same dollar is taxed multiple times as it moves through the economy, from an employer to an employee to a gas station and then on to the next employee, ad infinitum. Singling out dividends for exemption from this process is unfair to those who have little or no dividend income.

As Bob McIntyre of Citizens for Tax Justice points out, the meaningful economic concept here is the tax rate, not the number of times a tax is imposed. Which would you rather pay: a single tax of 40 percent or two taxes of 10 percent each?

Also, McIntyre reminds us, due to special corporate tax breaks, most corporate profits are currently escaping corporate taxation entirely. And only a small portion of corporate profits are actually paid out each year as dividends, mostly into tax-exempt pension funds and retirement accounts. "The bottom line is that the so-called 'double tax' doesn't come close to taxing corporate profits even once," McIntyre says.

Accelerating the income tax cuts for the top brackets doesn't help the people who are hurting right now

Families in the bottom tax bracket (taxable household income less than \$12,000) will get no help from this change.

In addition to promoting income inequality, the January 2003 Bush plan calls for extending the 2001 tax cut forever

"The largest tax cut in 20 years, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), favors families with children over those without children, especially among lower-income taxpayers, and high-income people over those with moderate and low incomes" (Urban-Brookings Tax Policy Center 2002). The Congressional Budget Office (CBO) recognizes that this will wipe out nearly 93 percent of the projected surplus from 2004 through 2013, almost all of which accumulates after the 2010 sunset of the 2001 tax cut.

The Bush plan fails to plan for needed reforms to the Alternative Minimum Tax

Fixing the Alternative Minimum Tax (AMT) will cost a projected revenue shortfall of \$500 billion during the period of FY 2003 through 2013 (Urban-Brookings Tax Policy Center 2002). Senior economists William G. Gale and Peter R. Orszag see the effect of these losses of revenue on the public debt as costing an additional \$380 billion in debt service alone. Including the debt service, the Bush administration's latest tax proposal will cost \$2.234 trillion from FY 2003 through 2013 (Gale and Orszag 2003).

By ignoring the state budget crises, the Bush plan ensures its own failure

The biggest U.S. state budget shortfalls since World War II will force legislatures to raise taxes or cut spending, reducing residents' disposable incomes and canceling out any stimulus effect of federal tax cuts.

Overall, the package won't provide enough of a boost to the economy

It's too tilted toward the wealthy, who tend to save, not spend, any additional money they receive. What the economy needs, and what low- and moderate-income families need, is more spending money, right now. Companies won't hire more workers if they have no demand for their products. The Bush plan delivers most of its tax benefits in 2004 or later – too late to help the economy now.

As Kevin Phillips, Republican political consultant and author of the book "Wealth and Democracy," says, "Given all the concerns in the White House and elsewhere about pumping support into a weak economy, this proposal is really mind-blowing. Not just for its contents, but for its lack of stimulus....This isn't just 'trickle-down' economics. The benefits to the rest of the economy, even to the stock market, are so conjectural that 'trickle-down' looks to become 'misting down.'"

There is a better alternative available: the [stimulus plan](#) proposed by the Economic Policy Institute. It takes effect right now and would help the economy immediately, rather than slowly over time as does the Bush plan.

Item	10-year cost in \$billions
One-time wage bonus of 3.5% of the first \$15,000 in wages (\$525 maximum bonus per worker)	\$65
Funds to states for health, education, law enforcement, and other critical services	\$50
School repair and renovation (would also create good jobs)	\$25
Aid to unemployed	\$25
Miscellaneous state aid	\$10

Chris Hartman is Research Director and David Martin is Media Coordinator at United for a Fair Economy. Ben Robinson is pursuing an degree in economics at the University of Massachusetts, Boston. A longer version of this article appears on the website of [United for a Fair Economy](#).

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