THE "NEW" BUDGET AGREEMENT: PART V THE BRINK OF DISASTER

After weeks of crisis government, the budget agreement that has emerged will damage the American economy even more than would have the agreement that was defeated three weeks ago. The new pact will increase taxes more than the original agreement. The new pact will increase spending, despite rhetoric to the contrary; indeed, the agreement allows spending to increase at near record rates, again, more than in the original agreement. The new pact dips deeply into the pockets of working class Americans directly by pushing up the price of gasoline, beer, tobacco and even airline tickets. And the greatest damage is yet to come – in the recession that will follow the tax increase. Businesses will close and contract, jobs will be lost, and the resulting fall in revenue to the Treasury will drive the budget deficit even higher.

The budget pact would undo the progress made in the 1986 Tax Reform Act, which lowered tax rates and created only two statutory rates: 15 percent and 28 percent. To increase progressivity, a "bubble" was created, with a 33 percent marginal tax rate for taxpayers with income in the bubble but a 28 percent marginal tax rate for incomes over the bubble. There has been much talk about eliminating this bubble. This made sense if the bubble would have been burst by keeping the top marginal tax rate at 28 percent. Instead, the bubble is being expanded by creating a single top rate of 31 percent.

Tax Trap. What is worse, while politicians and the Bush Administration compliment each other for getting rid of the current "bubble" by raising taxes on all Americans, they have created two new bubbles. Not only will this damage the economy immediately, it sets a tax increase trap for next year when the high-tax advocates in the White House and on Capitol Hill will argue that they again have to raise taxes to remove a bubble. The first new bubble in the proposed tax bill is created when taxpayers with incomes above a certain level lose part of the value for such itemized deductions as home mortgage interest, state and local income and property taxes, and charitable contributions. This raises the marginal tax rate for taxpayers in the affected income class by about one percentage point; this is a three percent hike. Marginal tax rates for wealthy taxpayers, however, will drop to the 31 percent level once the value of their deductions is depleted, creating the bubble that becomes the political issue that the "rich" are not paying a "fair" share.

The second new bubble is created by the children's surtax. Under the agreement, the value of personal exemptions, including those for children, will be phased out for taxpayers earning a certain level of income. The mechanism for this children's tax, a one-half percentage point increase in marginal tax rates, will push many upper-middle class taxpayers into a tax bubble that could reach 37 percent. Once the value of the personal exemptions is depleted, the marginal tax rate will return to the statutory level. Tax-hungry politicians then will quickly seize on the issue, pointing out that the very wealthy pay lower marginal tax rates on the last dollar of income earned than do taxpayers in this new bubble. The tax bill being considered in Congress will not only wreak damage in the near term, it also sets the stage for equally destructive tax increases next year.

Harming the Poor. The new agreement raises gasoline taxes by 5 cents per gallon. This harms the poor especially. In this extremely mobile nation with its vast expanses, the poor can least afford to pay higher transportation costs. Yet they have little choice but to turn over more of their earning in higher gas taxes to the federal government to keep their jobs. The new agreement hikes taxes for alcohol, tobacco, and airline tickets. Elitist Washington policy makers have singled out working men and women, relaxing after work with a beer, to pay more to make up for the inability of Congress and the White House to cut wasteful spending. And like gasoline, the poor pay a higher proportion of their income for alcohol and tobacco.

Combined with the gasoline tax, the higher tax on air travel is particularly disturbing. Families are spread out across America. Goods are shipped great distances to market. The budget agreement's attack on America's mobility will mean, among other things, higher prices for good, fewer visits by families to distant friends and relatives on holidays. And again, poorer Americans will suffer most.

Most harmful to the poor and middle class will be the recession that will be ignited by the new agreement. With the economy barely growing and unemployment inching up, taking more money out of the hands of consumers and businesses will end eight years of economic growth and push the economy over the brink into recession. The White House and congressional leaders seem to assume that a budget agreement is an end in itself. They act as if nothing they do will have real economic consequences. Yet the recession will be very real and the poor, as usual, will suffer most. It is puzzling how Congressman and Senators with working class voters in their states and districts could support a tax package that would so harm their constituents.

As a result, next year the great public discussion will be how policy makers have harmed all Americans. As the public eventually examines the budget pact, the failure to cut spending and the new and wasteful outlays will become a focus of outrage. The public, for example, will be entitled to ask: Is it worth paying 5 cents more for a gallon of gasoline so that the federal government can spend $220 million on higher congressional salaries, $1 million to study bicycling and walking, $500,000 on a monument to entertainer Lawrence Welk, $500,000 for a parachute drying tower, $100,000 for soybean based ink research and $100,000 to study sand on Waikiki Beach?

Forgetting History. The new budget pact forgets the lessons of the 1970s and 1980s. In the 1970s spending and taxes grew, inflation rose and the economy stagnated. All Americans, rich and poor, were hurt. Ronald Reagan changed the nation's economic direction. Lower taxes provided incentives for increased economic activity. Unemployment dropped from 10.6 percent at the depths of the 1982 recession to 5.1 percent earlier this year. Inflation tumbled, as did interest rates and gasoline prices. Approximately 20 million net new jobs were created during that period. This historical lesson is being ignored by George Bush and the handful of his top aides responsible for his budget decisions and by Congress. They are returning to the tax-and-spend policies of the 1970s. As the economy declines, the pressures for more spending increase. The 1970s cycle of decline will start anew.

America peers over the brink of economic disaster. This is not because the American people are lazy or unproductive. It is because the White House and Congress are more concerned with feeding the bloated federal bureaucracy and funding pork barrel projects. They forget that all of these excesses are paid for by the American taxpayer. The economy will not be held back from the brink by this proposed budget deal. It may be possible to save the economy, however, if the tax increase is rejected and policy makers rely instead on the Gramm-Rudman-Hollings law to reduce the deficit by making automatic cuts in spending.

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