

Cold cuts: The nation's financial priorities

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What are the nation's financial priorities these days, besides paying for the cost of invading and rebuilding Iraq? One clue came out of the House of Representatives in March. Seeking to accommodate President Bush's call for a \$1.4 trillion tax cut over ten years, the House passed a budget resolution that included a laundry list of cuts in domestic programs. According to an analysis by the Center on Budget and Policy Priorities, most of the cuts were slated to come from programs for children, the elderly and the disabled—from school lunches, child health insurance, veterans' benefits, Medicaid, Supplementary Security Income and the Earned Income Tax Credit.

The swipe at veterans' programs was especially glaring, coming as it did in the midst of a war—as if to say: while soldiers in the battlefield need support, once they become veterans they constitute merely one more expendable entitlement program. Overall, the message of the tax-cutting enthusiasts was clear: government will pay for military might, but not for fundamental social services.

In April the Senate pushed for a much smaller tax cut, so it is not clear what programs might be curtailed. But Bush has not backed away from the centerpiece of his tax cut proposal—the elimination of the tax on dividend income for individuals. This measure, though touted as tax relief (and an economic stimulus), would in fact offer relief only to the wealthiest Americans, since relatively few Americans hold stocks or mutual funds apart from retirement accounts in which dividends are untaxed anyway.

The Center on Economic and Policy Research reports that the richest 1 percent of all families owns 53 percent of all stock or mutual fund shares held by individuals. The top 10 percent possess more than 90 percent of the shares. Which means that 90 percent of Americans will get little if any tax break from elimination of the dividend tax.

The tax cuts may spur some short-term economic growth, but their long-term consequences are likely to be severe. Factoring in the tax cuts Bush has already enacted, economists are projecting unprecedented government deficits for the next decade. These deficits will impede long-term economic growth, and will sharply curb spending on social programs. And they will put the government in a terrible position to deal with the crisis in funding Medicare and Social Security, a crisis that will become unavoidable in 2013 when the first of the baby boomers start to retire.

So the government's current financial priorities are clear: tax breaks for the wealthy, supported by cuts in domestic programs, and a long-term strategy that will endanger key social-welfare programs. Those who don't share those priorities had better speak up.