

Tax cuts for millionaires

Tupelo's thoughtful gift to Greenwich

FROM HARROP

STAMFORD, Conn.

IF YOU WANT TO know where the serious money is, it's here. One in four households in the Stamford-Norwalk area boasts a net worth of at least \$2 million, according to American Demographics magazine. Salaries start in the six figures. Life is good in these New York suburbs, and about to get better. They are mega-winners in the tax-cut lottery.

The gentry on Round Hill Road, in Greenwich, must have been scratching their heads as legislators from Oklahoma, Mississippi and other low-income states fought so hard to slash rich Nutmeg State residents' taxes. Their own senators, Democrats Chris Dodd and Joseph Lieberman, voted against the legislation.

This tax cut is basically a gift from poor conservative regions to rich liberal ones. The big savings will go to the Northeast, West Coast and such moneyed enclaves as Chicago's North Shore suburbs, Michigan's Ann Arbor, Colorado's Aspen and Texas's Austin. If the tax cut forces reductions in government spend-

ing — as it's supposed to do — many low-income states will lose out. What has spurred legislators on both sides of the tax-cut debate to vote against the economic interests of their constituents is a mystery.

For years, Connecticut has had the worst deal with the federal government. Its high-income residents pay the most in federal taxes, while few federal dollars come their way. In fiscal 1999, Connecticut sent \$2,840 more per capita to Washington than it got back. Oklahoma, by contrast, has low incomes but scores high in federal spending. In 1999 it enjoyed a \$1,866 surplus with Washington.

Look what the tax cut will do. The top 1 percent of Connecticut earners will enjoy an average tax savings of \$214,000 over four years, says Citizens for Tax Justice. The top 1 percent in Oklahoma will save on average only \$52,000. And because Connecticut incomes are high across the board, even its lowest-earning 60 percent does much better — with tax savings averaging \$540, versus only \$275 for the same income group in Oklahoma.

The folks sipping gin and tonics on Norwalk's Wilson Point are no doubt lifting a glass to Sen. Don Nickles, the Oklahoma Republican who campaigned tirelessly to cut their dividend taxes. With about 3.5 million people, Connecticut has roughly the same population as Oklahoma, but reported four times more dividend income in 2001.

This bizarre political pattern repeats itself across the land. New Mexico has the lowest incomes in the nation and the most favorable deal with Washington — raking in nearly \$4,000 more per capita than it pays in taxes.

Yet one of New Mexico's senators, Republican Pete Domenici, voted for the tax cut.

Low-income Mississippi received \$2,684 per capita more from Washington in fiscal '99 than it sent. The tax cut will surely shrink that advantage. Mississippi's bottom 60 percent is also at the bottom in America in expected tax savings, averaging only \$181. Its top 1 percent is third from last in that group, with a tax cut averaging \$46,000. Why were the Magnolia State's Republican senators, Trent Lott and Thad Cochran, so hot to deliver tax relief to Darien?

Consider the 10 states with highest tax-cut scores. Six are coastal states with strong liberal traditions: Connecticut, New York, Massachusetts, Washington, California, and Florida. All 12 of their senators voted against the tax cut. The senatorial delegations from Illinois and Nevada split between yes and no. Only the senators from New Hampshire and Wyoming voted unanimously for the cut.

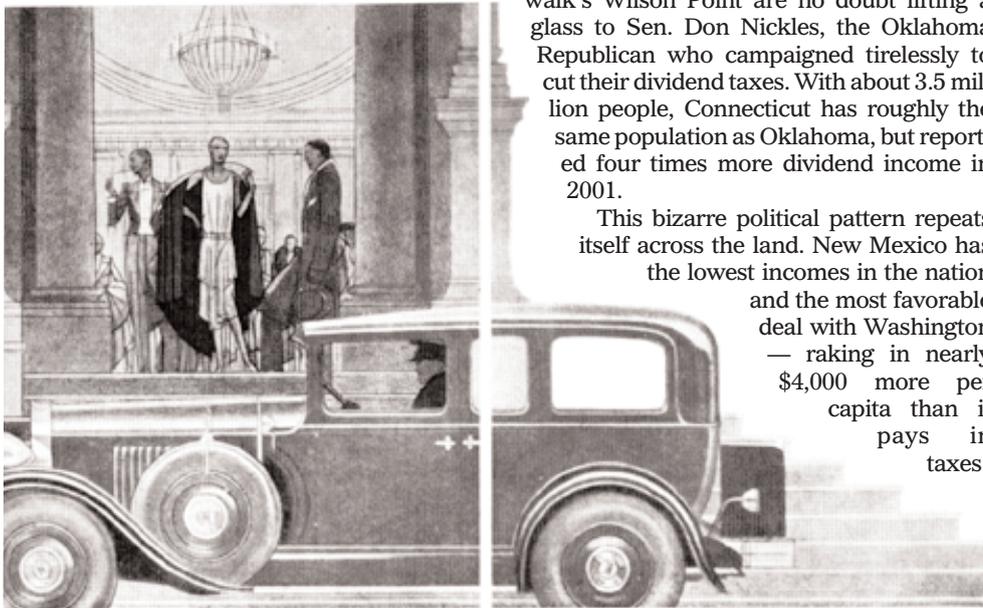
Let's speculate on how America's golden hamlets will allocate their tax-cut windfalls. There won't be much change in local spending habits. These people buy what they want when they want it. The \$400 child-credit check will get tossed into a drawer, along with dividend payments deemed too small to bother with separately.

Most of the money, one assumes, will end up in investment portfolios and the estates they'll become part of. And if all goes according to plan, the estates won't get taxed, either.

The winning states may divert some of these tax savings to local coffers. Connecticut's Gov. John Rowland, a Republican, recently approved a middle-class tax increase and even toyed for a while with a "millionaire's tax."

The yachtsmen in Stamford may not quite understand Tupelo's generosity. But they're not going to argue with it, either. The big boats are back from St. Bart's, and they have other things to think about.

Froma Harrop is a Journal editorial writer and syndicated columnist. She may be reached by e-mail at: fharrop@projo.com.



Corporate-pension crisis threatens retirement dreams

FROMA HARROP

NEW YORK

THE AMERICAN DREAM is now sending eviction notices to workers who think that the deal includes hanging up their jobs at age 65 and spending the next quarter-century in leisure. Years hence, Americans will look back on the 1980s and '90s as the golden age of American retirement.

Today's retirees may gripe about having to dig into their own wallets to pay for their Lipitor, but they don't know what digging is all about.

Members of the Baby Boom generation, that huge cohort now approaching retirement, are in for a major revision of expectations. They know that their 401(k) plans or other stock investments remain sadly depleted. But they may be unaware that other expected retirement benefits are not exactly set in concrete. Corporations and the federal government both show declining enthusiasm for supporting lengthy retirements. Promises are promises — until they are changed.

The nasty surprise for 2003 might be the collapse of many corporate pension plans. We're talking about the old-fashioned kind of pensions, whereby the employer pledges to pay workers a set number of dollars upon retirement.

Sagging stock prices have left hundreds of America's biggest company-pension programs seriously underfunded, according to a study by Merrill Lynch. They include some great names of American business: Ford Motor Co., G.M., Boeing, SBC Communications.

By law, these companies must pump billions into their pension funds in 2003 to restore them to health. But will they? Some will, and some won't.

The steel industry shows how some old-line manufacturers groaning under the weight of enormous retirement obligations will handle the problem: They're going out of business. LTV Steel, for example, closed its plants. By doing so, it walked away from various benefits owed to its 85,000 retirees and their dependents. (The company that bought the factories is not responsible for meeting these obligations.)

The Pension Benefit Guaranty Corporation is a government agency that takes over failed pension plans. But while it helped most LTV workers obtain their pensions, it did not replace other lost benefits, such as health care for retirees. And the agency has limits on what it will pay. It guarantees pensions up to only \$42,954 a year — with the number sliding steeply downward for younger retirees.

How the Pension Benefit Guaranty Corporation would handle an epidemic of failed pension plans is something we don't want to think about. Taxpayer groups are already questioning whether the government should be picking up the pieces of gold-plated pension plans that companies should never have offered.

Bear in mind, these are problems of a worker elite. Only 52 percent of all employees participate in any employer-sponsored retirement plan at all. Social Security is the only retirement plan the other workers have, and what that will look like 10 years



from now remains unclear.

Congress and the president have certainly set the stage for trimming government obligations to retirees. They're doing the old starve-government-of-revenues-through-tax-cuts routine. The closing line goes as follows: Boy, I'd really like to help you out, but as you can see, there's no money.

U.S. Comptroller Gen. David Walker told a Senate committee in 2001, "Without a change in entitlement programs, demographics will overwhelm the surplus and drive us back into escalating deficits and debt."

No one has to wait for the overwhelming demographics of the aging Baby Boom generation. Tax cuts, a mild recession and war on terrorism have already cleaned out the Treasury.

Look at what's happening to Medicare. Doctors were already turning away older patients, because of low reimbursements. So what does Medicare do? It cuts the payments by another 4.4 percent. This follows a formula contained in a 1997 federal law that tried to control Medicare spending. The Bush administration insists that it has no control over the formula. Expect more of this kind of thing in the years to come.

If the Baby Boom generation wants to look at the situation analytically, it might concede that the American Dream, however bountiful, never agreed to pay for 30-year retirements. Even without tax cuts, many of these promises to retirees look rather unrealistic. When Social Security was created, in the 1930s, the life expectancy was 55. People who reached 65 and started collecting checks were considered marvels of longevity, not the norm.

With financial support drying up, fewer people will have much choice in retirement age, anyway. The best advice for Americans who can't afford to retire will be: Don't.

Froma Harrop is a Journal editorial writer and syndicated columnist.



Show mortgage deduction the gate

FROM HARROP

POLITICIANS OF AMERICA, let's make a deal. You can get rid of the tax on dividends if you will also do away with the deduction for home-mortgage interest. Let's see a show of interest. Anyone? C'mon, don't all raise your hands at once.

It's a brilliant tradeoff, really. Supporters of erasing taxes on dividends argue that it would stimulate the economy. But ending the deduction for mortgage interest could do even more. The tax break serves as a naked incentive to borrow money, rather than save and invest it.

While making dividends tax-free would deprive the U.S. Treasury of \$364 billion over 10 years, discarding the mortgage-interest deduction would bring new money in. The deduction will cost the government an estimated \$70 billion in lost tax revenues for fiscal 2003 alone, according to the bipartisan Joint Committee on Taxation.

Of course, this idea has a snowball's chance. Large numbers of homeowners take this deduction and consider it the nation's tribute to their nesting instinct. Real-estate agents list the deductibility of mortgage interest as a selling point for expensive houses.

The tiny handful of politicians who dare make a case against the deduction usually do so in the context of backing a flat tax. Republican John Sununu, of New Hampshire, defended these ideas during his successful Senate campaign last fall. His Democratic opponent ran television ads whispering darkly about plans to take away the beloved deduction.

Ardent defenders of the deduction say it encourages homeownership, and that is a good thing. Owner-occupied housing stabilizes neighborhoods, creating a healthy environment for children to grow tall, strong and emotionally sound.

Bah, humbug. This is just another example of using the tax code for social engineering.

Many conservatives condemn such tinkering with the tax laws but, in practice, do it with gusto. They use tax incentives as a backdoor way of helping certain constituencies. Rather than spending federal dollars outright on social programs, they slip money to selected interests by cutting their taxes. That approach makes problematic social policy, because tax cuts naturally favor big incomes. And it simply moves the tax burden onto a different set of shoulders.

In a rational world, the sole purpose of taxation would be to raise enough money to pay for govern-

ment. Tax laws would not be summoning people to buy houses, purchase fuel-efficient vehicles or have children, even though we might applaud one or more of those activities.

The social value of attaching tax breaks to home mortgages is highly debatable, in any case. Tax breaks lure some families into borrowing more than they can comfortably pay back. Many home-equity loans (another kind of mortgage) allow people to pile on thousands in fresh debt by merely writing a check. Crazed by anti-tax rhetoric, consumers are primed to think: "Might as well buy this shiny new pickup. After all, the interest is tax-deductible."

Everyone knows parents who take second jobs and otherwise work long hours just to keep up with interest payments. They're almost never at home. The quality of American family life might improve with less borrowing.

The mortgage-interest deduction does not spread its benefits very equally. First of all, it discriminates against renters, who tend to have lower incomes than homeowners. Even among homeowners, the deduction helps mostly the well-off, who tend to itemize their deductions. Regular Joes taking the standard deduction enjoy no special deal.

Surprise, surprise. Households with income of \$100,000 or more receive 63 percent of the tax savings, according to the joint committee's report.

Some warn that making mortgage-interest payments non-deductible could depress real-estate values. Would that be so bad? Lower house prices would make housing more affordable. The Tax Foundation makes the interesting prediction that stopping the deduction would reduce the value of only the most expensive houses; those priced at \$300,000 or more could see losses of 7 percent. Prices for \$100,000 houses would actually rise modestly, according to the foundation, which advocates a simplified tax system.

As the alarm rises over the escalating budget deficits, might more politicians suggest ending the mortgage-interest deduction? Don't bet the farm on it. Pairing the loss of a deduction with the abolition of the tax on dividends would give political cover to the brave few who would raise fists. The great majority of hands, however, would go numb from the weight of heavy posteriors.

Froma Harrop is a Journal editorial writer and syndicated columnist. She may be reached by e-mail at: fharrop@projo.com.

Lt. Columbo, call your office

GOP's tax-cut murder most foul

FROM HARROP

THE SMUG VILLAINS always thought that they could put one over on Columbo. They devised slick murder schemes, setting off a chain of events that ended in a killing. By the time that the ruffled detective came upon the corpse and declared foul play, the scent leading to the guilty would be all but gone.

Republican tax cutters know the plot. Using the slow-poison technique, they administer cut after cut to kill off — or seriously weaken — Medicare, environmental protection and other niceties of American civilization. When the middle class finally senses what's going on, the life support for their entitlements — tax money — will have been unplugged.

No other motive for these monster tax cuts seems plausible. Serious economists — including Douglas Holtz-Eakin, President Bush's handpicked chief at the Congressional Budget Office — don't think that it will help the economy. Fed Chairman Alan Greenspan worries that surging deficits will raise interest rates and actually harm a recovery.

Moderate Republicans in the Senate, meanwhile, have joined Democrats in fighting off pressure to be as reckless as the representatives. They're now debating a tax cut that, though still unnecessary, is \$200 billion less than the one passed in the House.

Misleading the public over the true motives for exploding the deficit is not a crime. Manipulation may not be a pretty thing, but it's perfectly legal. The middle class won't start feeling the effects until after the 2004 election, when there will be no political consequences for Bush.

The truly conservative way to enact tax cuts, of course, is to pair them with spending reductions. Doing so, however, puts the stranglers at risk of getting caught red-handed. Why face the wrath of voters expecting certain benefits and services by revealing the programs to be slashed, and by how much?

Better to let nature take its course. Let the federal government's fiscal health collapse to the point where everyone agrees that these programs must be cut. Leave no fingerprints.

Only a few tax slashers own up to the plan. One is the Club for Growth, a group that runs nasty ads attacking responsible Republicans, like Sen. George Voinovich, of Ohio, and Sen. Olympia Snowe, of Maine. Give the club credit for stating outright that the point of the tax cuts is to "starve the beast," meaning the federal government.

Remember the lock box? The lock box is in its coffin and buried, but it was a big theme during the 2000 presidential campaign. Democrat Al Gore never stopped talking about the lock box. Republican Bush said he was for it, too.

The lock-box theory went as follows: The enormous Baby Boom generation was to retire in a few years, putting enormous pressure on the federal



Illustration by Heinrich Kley (1909).

budget. Using the projected surplus to pay down the national debt would leave the federal government in a stronger financial position — and better able to handle the heavy demand on Social Security and Medicare.

Look at what's happened since: A weak economy and a series of rich-man's tax cuts have already turned the \$281 billion budget surplus Bush inherited on Inauguration Day into a \$246 billion deficit. And the anticipated surge in retirees is even closer.

Someday, the middle class is going to wake up and realize that it's not feeling so hot. It will have gained very little from the tax cuts and lost a great deal of the benefits and services that made life in America rather pleasant. (The latest Bush tax cut gives over 70 percent of the benefits to the top 10 percent of earners, according to the Center on Budget and Policy Priorities.)

Unlike a *Columbo* mystery, this story will have no satisfactory conclusion. Don't expect that moment when the detective draws the arrogant Mrs. Vandevere away from poolside and slaps the cuffs on her. "I'm sorry I have to do this to you, ma'am, but you shouldn't have killed your stepson."

Some Americans may cry "Holy murder" when they finally understand that tax cuts have turned their expectations into dust. But it will be too late. The perpetrators will be long gone from office. And voters will face the painful truth that they only have themselves to blame.

Froma Harrop is a Journal editorial writer and syndicated columnist. She may be reached by e-mail at: fharrop@projo.com.



Stop the telephonic forced entry

FROM HARROP

MY E-MAIL INBOX is a cesspool of porno hustlers, computer worms and assorted cons. On the Internet, pop-up ads attack like locusts. Advertising invades my space in airplanes, at gas pumps, in doctors' offices. The one haven in a world wallpapered with come-ons was to be the telephone — thanks to the Federal Trade Commission's do-not-call list. On Oct. 1, the FTC was to start punishing telemarketers for calling people on the list.

I and 49,999,999 other Americans had signed up for the do-not-call list. (I used the FTC's special Web site, donotcall.gov.) Fifty million in a country of 105 million households is an impressive chunk of the citizenry.

Now a federal judge in Oklahoma says that the FTC had no authority to create this registry. That means telemarketers may continue barging into our homes unhindered. Expect more credit-card companies, mortgage refinancers and boiler-room commodity traders calling at dinnertime.

Let us pray that the court decision, which FTC chairman Timothy Muris called "clearly incorrect," is ripe for overturning. Pray, yes, but do not hold your breath. The telemarketing industry vows to take its case, if necessary, to the Supreme Court. A right to free speech, the telemarketers say, lets them badger people in their homes, even folk who say they don't want to be called.

And so we must shudder every time the darn thing rings. The answering machine will be on at all times. We can't leave the phone line unmonitored, secure that only family, friends and wrong numbers will call.

There's something especially intrusive about telephone solicitations. E-mail is something we check at our convenience. We can delete the garbage quickly. We can turn off the TV when the commercial onslaught becomes unbearable.

Telephone calls, on the other hand, put most of the power in the caller's hands. It's true that people with a Caller ID service can check the number before picking up the phone — but they still have to stop what they're doing first.

The Direct Marketing Association has thanked the federal district court in Oklahoma City for turning the do-not-call registry into a toothless wish list. In a press release, the DMA said it "acknowledges" the ex-

pressed desires of millions to not receive telephone-marketing solicitations. Now it can ignore them.

It's a sick commentary on American life that ensuring serenity in our own homes now costs us money. I pay a monthly fee for Caller ID and an answering service that helps me screen calls. I subscribe to Netflix, which mails out DVDs of movies without commercials, and to TiVo, the television recording service. The TiVo controls let me whiz through commercials. (Perversely, many channels now flash little ads on the bottom of the screen during the actual programming.)

The war against electronic home invasion continues with some victories as well as defeats. Just as the federal court ruled in favor of the telemarketing hordes, California's governor signed a bill that would stop Internet advertisers from sending unsolicited e-mails.

We're talking spam, here — the e-mail plague that only a hammer to the computer could cure. California officials assert that there's no way spammers can get around the new law, which slaps fines as high as \$1 million on violators. (Washington state passed a weak anti-spam bill in 1998.) We shall see. It's next to impossible for a spam factory to separate the California e-mail addresses from the others. So if California bans spam for its people, it clobbers it for us all.

The most offensive thing about telemarketing is that it preys on people with good telephone manners. Courteous types have great difficulty just hanging up on callers — especially the kindly ones the telemarketers like to hire.

A wave of pest calls, however, can wear down the most saintly responders. A niece calls to wish them a happy birthday, but having been ambushed three times by telephone solicitations, they answer the phone with "Whadda you want?"

There must be some way to evade this barbarism other than moving to a cave and opening only perfumed first-class mail. American law is full of provisions designed to protect the sanctity of the home. Surely Americans have a right, as well as a need, to bar forced entry through their phone lines.

Froma Harrop is a Journal editorial writer and syndicated columnist. She may be reached by e-mail at: fharrow@projo.com.