Tax policy debate spells economic disaster

by Nancy Spannaus

The passage of President Bill Clinton's tax revenue package in the House Ways and Means Committee on May 13 is almost as disastrous as the defeat of his paltry economic stimulus program a few weeks before. The President has almost completely shifted the parameters of his economic package into one form of austerity or another, to "balance the budget." The result will be a political, as well as an economic, blowout.

Thus, despite his legislative "success," the President faces an increasing wave of discontent in the Congress, including within his own party. The agenda of social issues, such as lifting the ban on homosexuals in the military, has already roiled the political waters; now the economic agenda is likely to create the same backlash.

As Lyndon LaRouche has stated, as long as Clinton continues to waffle on asserting the only moral policy in the Balkans, he is going to face an eroding situation on domestic policy as well. The President is increasingly capitulating to Republican opponents of his original economic perspective, which contained moves in the direction of what he called "growing the economy." Under these conditions, he is in no position to take on the even more powerful forces who have created the economic depression, the central bankers at the Federal Reserve and the International Monetary Fund.

The tax package

By a straight party-line vote of 24-14, the Democratic Party-controlled House Ways and Means Committee voted up a slightly modified version of President Clinton's $264 billion tax package. In addition to increases in corporate and personal income taxes, the main elements of Clinton's program—which is the largest single tax hike in United States history—include the following:

- An energy tax, in the form of a levy on BTUs (British Thermal Units, a measurement of heat and energy). This tax will massively increase the cost of living, since it will force price hikes in everything from home heating fuel to food, transportation, manufacturing, and mining, based on BTU content.

An analysis conducted by *EIR* magazine has found that the BTU tax will raise energy taxes by nearly $300 billion over the next 10 years, drive down energy consumption by 1-5%, and slash 350-500,000 jobs from the economy, almost all of them in the goods-producing sector.

Not surprisingly, the BTU tax will do great damage to the domestic oil industry. A recent study by Wright Killen and Co., a Houston energy consulting firm, projects that the BTU tax will lead to the shutdown of 40 U.S. refineries; those 40 closings, added to the recent closings of 24 other refineries, would reduce U.S. refining capacity by 17%, and cost thousands of jobs.

- An increase in the amount of Social Security benefits subject to taxation. The Clinton tax package, as passed by the Ways and Means Committee, will increase from 50% to 85% the taxable portion of Social Security payments for individuals with an income of $25,000 a year, and couples with an income of $32,000 a year.

This is the opening shot in a campaign to reduce spending on entitlement programs, especially those that support the "greedy elderly," including Social Security and Medicare.

- Implementation of Clinton's plan to "end welfare as we know it," and the expansion of "empowerment zones," the Clinton administration's term for free-enterprise zones.

To make matters worse, Clinton capitulated to opponents of the one positive component of the tax package, an investment tax credit, or ITC, which he had previously and repeatedly identified as a cornerstone of his program to "grow the economy" out of its depression. But with the agreement of the White House, the Ways and Means Committee completely excised the ITC from the package.

Budding tax revolt

Immediately following the passage of the tax package, a group of Democratic senators announced their intention to break with the President's program. Democratic senators David Boren of Oklahoma and Bennett Johnston of Louisiana held a press conference with some Republican colleagues in order to put forward an alternative to the BTU tax package. While the pundits claim that this new package will be unable to win passage, there is no question but that it reflects strong anti-tax sentiment in the population.

Citing accurate projections of the disaster that the BTU tax would represent for the oil-patch states, which Boren and Johnston represent, the senators proposed an alternate taxation scheme that would be equally unfair. The primary target of their tax scheme was medical aid to the poor, in the form of Medicaid and Medicare. President Clinton was no doubt correct when he attacked the plan as hitting hardest at poor elderly and working poor sections of the population.

But what is actually going on here, is the presentation of a choice between the devil and the deep blue sea. Both the BTU tax scheme, and the proposed cap on medical spending for the indigent and elderly, will cripple the living standards of those who can ill afford it—and therefore will contribute to the spiralling decline of the real economic base. The fundamental problem is the President's, and Congress's, refusal to take up the necessary job creation program which has been put on the table by LaRouche—a massive infrastructure building program financed by cheap credit directed from a federalized Federal Reserve Bank. Without such a jobs program, every so-called deficit reduction or revenue enhancement measure is doomed to failure.

The Perot factor

The U.S. population is generally a bunch of suckers for the populist rhetoric which calls for cutting the federal budget so that "congressmen live within their means." Few generally stop to think about the effect of cuts on the real economic activity on which the continued survival of our nation depends. It will take strong leadership for Congress, and/or the President, to insist upon the government spending program required to reverse the worst depression of the century.

Making matters worse, however, is the abundantly financed campaign of billionaire populist H. Ross Perot. Perot seems to be devoting himself fulltime to building his organization, United We Stand America, and to organizing opposition to all aspects of President Clinton's program. In fact, the better the program (like limited infrastructure proposals), the harder Perot opposes it.

Perot's group is currently circulating a national petition under the slogan "Cut spending before increasing taxes." It argues that "the Clinton plan does not balance the budget—ever," and demands that Congress "stand fast against 'politics as usual' by demanding spending cuts and reform *before* any new taxes or user fees are approved."

The Perot pitch is both vacuous and incompetent. The petition reads in part: "We will only pay additional taxes if they will be used to balance the budget and pay our current national debt, provided that you set the example for sacrifice. Cut your salaries, retirement plans, and perks. Implement real government reform, including elimination of foreign lobbyists, PACs, soft money, and limit the role of domestic lobbyists to simply providing information to Congress, not giving money directly or indirectly. Spend our money carefully—not recklessly. Cut the pork. Account for every penny. Give us specific time commitments for balancing the budget. . . ."

The problem is that such measures will do *absolutely nothing* to employ the 6 to 8 million persons (out of more than 17 million unemployed or underemployed) whose labor is critical to rebuilding our infrastructure and national productivity. Indeed, you could cut the federal government budget by 50%, and all you would do is kill a lot of people. The debt service would then be an even larger proportion of the federal budget, and the economy would decline more rapidly. And who would have the most influence on Congress? The personally wealthy, like billionaire Ross Perot!

Unfortunately, Perot—like Clinton—has dropped his previous demand for rebuilding national infrastructure, and investing in real improvements in productivity. He is marching to the Wall Street drummer, in the guise of a down-home Texas populist.

Down to the wire

Under the current configuration, there is no way that President Clinton can assure either the recovery of the ailing economy, or his own political future. His austerity programs, of whatever form they take, are going to rip the country apart—with the elderly fighting the young, the energy producers fighting consumers, high-technology industry fighting proponents for the cities, and so forth, and so on.

As LaRouche has repeatedly advised, Clinton has got to stop trying to run Washington the way he ran Arkansas, and stop being so flexible that he gives up the guts of a real economic program. Ultimately, the President is going to have to go up against the financial establishment itself, including the Federal Reserve, if he's going to avoid the fate of being as unpopular as President Bush, in a much shorter period of time.

Asserting rationality—in areas such as the Balkans and on the U.S. economy—is the only way for Clinton to prevent the U.S. itself from dissolving into a horrible chaos.