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A Fiscal Fantasy

By PAUL KRUGMAN

I want to share a fantasy with you. Trust me: it will explain everything you need to know about the budget debate.

Imagine a world in which the tax law doesn't mandate any future tax cuts — absent further legislation, tax rates will stay the same as they are today. Any future changes in rates will require new legislation.

In my fantasy world, there's a budget deficit, just as in reality. Deficits also appear likely for the next few years, with somewhat iffy projections of a return to surpluses later in the decade. Just about all of those projected surpluses come from Social Security. In short, the fiscal outlook is tolerable but not great.

Now suppose — still in my fantasy world — that the administration comes along and proposes a huge new round of tax cuts. These tax cuts aren't temporary measures designed to boost the economy — on the contrary, they are permanent cuts that grow over time. Many of the proposed tax cuts won't take place until 2005 or 2006; some won't take effect until 2010.

The proposed tax cuts are also heavily tilted toward the wealthy. Two-thirds of the population would receive nothing at all; well over half of the total goes to people earning more than \$200,000 per year.

It's pretty clear that most voters, if presented with this proposal right now, would be strongly opposed, even outraged.

But of course in the real world those future tax cuts — which are exactly the way I've described them — aren't being proposed now. Instead, they were smuggled into last spring's tax bill. That doesn't make the prospective tax cuts any less outrageous; but it does make it easier for the public to become confused about what's at stake. And everything the Bush administration says about taxes in the next few weeks will be designed to maximize that public confusion.

First, administration officials will claim that people who want to cancel future tax cuts want to raise taxes. This is like George W. Bush's claim that the Enron chairman, Kenneth Lay, supported Ann Richards in the Texas governor's race (he did give Ms. Richards some money — but he gave Mr. Bush much more). That is, you can try to rationalize it with fancy word play — not cutting taxes is raising them from what they would otherwise have been, right? But it sure feels like a lie.

Second, they will throw up a smokescreen of confusing figures to hide the agreed fact that tax cuts are a major reason for the abrupt collapse of the projected surplus. Let me repeat the words "agreed fact." Recently four independent projections were made of the budget surplus over the next decade: one each from the Democratic and Republican staff of the House and Senate. All four projections marked down previous surplus estimates by two-thirds; all four attributed about

45 percent, or \$1.7 trillion, of the decline to the tax cut. Everyone expects the estimates that the nonpartisan Congressional Budget Office will release tomorrow to look very similar.

Third, they will claim that the future tax cuts are just what the doctor ordered to deal with the current recession. The C.B.O. disagrees; it declared, in a recent report, that accelerating those tax cuts would be ineffective as a stimulus measure. And if tax cuts now are ineffective, tax cuts later are even less effective.

Finally, the administration will try to convince you that the return of deficits won't hurt you personally. But for millions of Americans deficits will soon begin to pinch, hard.

A case in point: Just a few days ago a bipartisan panel recommended increases in Medicare payments, warning that a failure to raise them would jeopardize access to care for the elderly and disabled. Indeed, over the last few years many H.M.O.'s have either pulled out of Medicare or sharply raised co-payments, causing thousands of retirees to lose benefits; in some cases cancer patients have been forced to cancel chemotherapy. But though in the past Congress has usually followed the panel's recommendations, congressmen are now doubtful whether they can provide more money "in the current budgetary environment." That shrieking you hear is the sound of Medicare patients being denied coverage to make room for tax cuts.

And the chest-thumping you hear is the sound of an administration trying to prevent any rational discussion of the fiscal mess its tax plan has created.

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