

Quietly, The Taxes Are Changing

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SCRIPT: Everyone's focusing on what President Bush and Senator John Kerry disagree about. But what's really scary is what they agree on. That's because it may really happen.

Let's take the middle-class tax cut. It's cruising toward certain passage. It sounds great: a bigger child credit, "marriage penalty" relief, and temporary relief from the dreaded Alternative Minimum Tax.

Senators Kerry and John Edwards are signing on. After all, they care about the middle class and they want to show it. They agree with The President that all these cuts should be fully effective immediately and extended permanently.

For the fourth time in four years, Congress will grant us all a big tax cut using money they don't have. If all the middle class tax cuts are made permanent, they'd balloon the deficit by 600 billion dollars over the next decade.

This may be dressed up as aid for the beleaguered middle class, but it smacks of election year pandering.

For the middle class to be better off over the long run, someone else has to pay for today's tax cuts. But hey, that's the political appeal of deficit-financed tax cuts. You don't have to say who pays.

Sure, in the short run, the tax cuts will put a few bucks in the pockets of middle class people. And they'll buy things. But is that what we really want? Just today, the Fed raised interest rates for the third time to try to keep the economy from overheating. Isn't this dueling economic policy?

In the long run, all this government borrowing competes with businesses and consumers for scarce capital. That borrowing could push interest rates up or fuel inflation.

To really boost the economy, you'd need to cut tax rates while closing loopholes. That could be done without adding to the deficit. But this middle class tax cut is just buying votes at election time.

If these guys agree on much more, we'll be bankrupt.

In Washington, this is Len Burman for Marketplace.

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