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Dog Days in the Senate

By William W. Beach

United States Senate Majority Leader Bill Frist filed a motion on Wednesday that may permit a vote this Friday on a stunningly unprincipled bill. The "Estate Tax and Extension of Tax Relief Act of 2006" (H.R. 5970), which the House has already passed, reaffirms Congress's control over labor markets, reinvigorates federal death taxes, and strengthens Washington's top-down management of the economy through the tax code. This legislation could well mark the full-throated return of 1970s-style economic policy rather than the usual erratic legislative behavior that August heat and the rush out of Washington usually produce.

Many conservative senators would likely be surprised to learn that they are about to breathe new life into largely repudiated left-wing policy prescriptions. After all, what could be more humane than raising the minimum wage for low-income workers, more economically sensible than reducing the tax burden on the most successful members of our economy, or more responsible than making business tax payments more predictable by not allowing key credits, deductions or exemptions to expire? However, all senators, particularly the conservatives, should stop and consider this legislation before them.

Minimum Wage

This bill would raise the minimum wage. Everyone wants to see low-income people make more money, and nearly everyone in Congress knows that the best way to see this happen is to have a rapidly growing economy that produces well-paying jobs. Attempts to bypass the economic solution to wage growth end up producing effects that no one wants. Specifically,

- When Congress raises the minimum wage, young and old low-skill workers end up losing their jobs. Economic study after economic study affirms this effect.
- When the minimum wage goes up, Congress inadvertently tells young people to reduce their schooling or training and take a job. Less schooling or training means less income for many over their lifetime of work.
- A higher minimum wage means slower job growth among small businesses. Most minimum wage jobs can be found in small and emerging businesses, the same organizations that usually operate with the slimmest profit margins. Since a business's labor bill is among the easiest expense to change when costs go up, a minimum wage increase means fewer small business jobs.

Death Tax Reform

This bill significantly reduces the tax rate on estates and substantially increases the amount of one's estate that will be exempt from taxation.

This paper, in its entirety, can be found at:
www.heritage.org/research/taxes/wm1185.cfm

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Surely it is a very good thing for the economy and, thus, for job creation to have lower taxes on the capital accumulated by the most successful members of our society. However, this proposal affirms what the general public has rejected: that it is moral to tax a lifetime of hard work and savings. It validates the policy of double, perhaps triple taxation, since the economically virtuous activities that resulted in taxable estates already have produced income taxes. Furthermore, the legislation continues the odd tax practice of one tax eating away at another: estate taxes reduce the amount of income taxes collected by discouraging investment. Investment creates jobs and, thus more taxable income.

Worse, this legislative initiative stops the movement toward death tax repeal in its tracks. If Congress does not act on the death tax this year, death taxes disappear for one year in 2010, after which they return at very high tax rates. This timeline has kept Congress's attention focused on repeal, the correct moral and economic policy. However, the reform before the Senate keeps estate taxes in place even in 2010 and allows future Congresses to increase tax rates and expand the pool of estates that must pay this tax.

Tax "Extenders"

The conservative withdrawal on the minimum wage and death taxes becomes a full-blown retreat when reviewing the damage the Senate could do to future efforts at tax reform. Our current tax code is riddled with enormous tax breaks for particular types of economic and social behavior, and subsidies that the code gives certain taxpayers is a major reason why our broken tax code remains unreformed. After all, why would anyone want to give up a claim to a big tax break? The "tax extenders" about to be considered by the Senate would perpetuate these tax subsidies and, in some instances, increase their value to taxpayers. For instance,

- This legislation, among its nearly 50 sections dealing with tax odds and ends, would allow taxpayers in states without a state income tax to deduct their state and local sales taxes, thus creating a federal subsidy for this tax.
- This legislation would extend the research and development tax credit to business taxpayers, thus continuing the federal subsidies to privately based innovation.
- This legislation would allow school teachers to deduct the cost of their classroom supplies.
- This legislation would extend the favorable tax treatment that residents of the District of Columbia get.
- This legislation would give certain property on certain Indian reservations a more favorable tax depreciation schedule than like property elsewhere situated.

While political expediency is the oil that runs governments everywhere, Americans generally have been assured that Congress will follow principle on the big matters of the day. The legislation the Senate will consider Friday deviates from principle. One hopes that this is just a symptom of the dog days of August.

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