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# Debate Over Bush Tax Proposal Shows Less Class Division

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## *Debate Over Bush Tax Proposal Shows Less Class Division*

BLOOMINGTON, Ill. — When President Bush unveiled his tax cut initiative that centered on the elimination of most dividend taxes, the resulting debate underscores a shift away from class division, says a professor of economics at Illinois Wesleyan University.

Michael C. Seeborg, the Robert S. Eckley Professor of Economics at Illinois Wesleyan, says that so many workers are now invested in the stock market that previous distinctions between a "worker" class and an "investor" class are increasingly blurred.

"As you listen to the rhetoric in response to the Bush proposal you are struck by the fact that the dynamics are different," says Seeborg. "Stocks are so widely held nowadays that more people than ever identify with the so-called 'investor' class and may find arguments in favor of removing tax on dividends attractive."

A Federal Reserve paper released this week concluded that U.S. stock ownership reached 51.9 percent, the first time ever that more than half of American households own stocks.

Seeborg believes that this development means the argument has to be more nuanced than in the past. Rather than arguing simply that tax cuts for dividends favor the rich, he says, opponents will have to draw out the ways in which such a tax cut would interact with other factors so that the overall effect might be the rich getting richer.

In Seeborg's opinion, the Bush tax proposal does have some merit. In particular, he believes that the dividend tax cut would eliminate distortions in the tax code that result from double taxation — corporations first pay tax on income and then that money is taxed a second time once it has been distributed as dividends.

"By removing this distortion from the tax code, you may decrease the tax incentive that companies now have to repurchase stock rather than pay dividends. That could mean, in turn, that a company is more widely held and the management has less control. Given the corporate scandals we've seen, this could be a benefit," says Seeborg. "In addition, the double taxation on dividends has led companies to go to debt markets to finance expansion rather than issue new stock. That can lead to greater dependence on leveraged financing, which can make the economy more vulnerable."

Seeborg would encourage changes to the Bush proposal that would increase and extend unemployment benefits and would also recognize the importance of making transfers to state governments for training or relocation programs for unemployment workers.

To arrange an interview with Professor Seeborg, contact Jeffery G. Hanna or Ann Aubry at 309/556-3181.