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NEWS

The politics of pennies

BY TONY ROMM ON 10/23/08

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Economic trepidation has forced a generation of young voters to scrutinize the economy - and the candidates who discuss it. [Click here to see the undecided voter's guide to the economy.](#)

Before this month, Jessica Altounian, 20, said she thought little about the candidates' economic rhetoric.

To her, inflation meant "affording the things I want to do."

The ambiguous phrase 'fiscal discipline' was a reminder to "keep an eye on my bank account and slap myself whenever I went overboard."

And taxes? "They really meant nothing," she said. "I don't work very much, I don't own property, I'm still dependent on my parents."

But shortly following the economy's sudden downturn, Altounian said she started scrutinizing the candidates' proposals - and how they planned to pay for them - more closely. The New York University film student's realization was as unfortunate as it was clear: Sens. Barack Obama's, D-Ill., and John McCain's, R-Ariz., promises of reform are much less appealing at a time when financial imprudence is costly.

There is reason to believe Altounian's newfound interest in the economy and taxes is no anomaly: [A September Rock the Vote poll of 18 to 29-year-olds](#) found that nearly 41 percent of young voters now rank fiscal issues as their top concern - a 24-point increase from the organization's [comparable poll conducted this February](#).

The problem, according to Marylynn Diallo, a senior in the College of Arts and Sciences who is studying the effects of recessions on graduates, is that the candidates have missed this signal. Despite their insatiable quests to attract youth voters, both presidential candidates have failed to relate their economic and tax policies to current and former college students. As a result, their omissions have fostered misunderstanding and fear, she said.

"A lot of young voters see the economy as a dense issue; if you don't study economics, you might not even understand what's happening to the economy right now," Diallo said. "Obama and McCain need to better explain their policies... both candidates need to do a better job addressing our fears."

SAME SONG, NEW TUNE

Just ask Mary Hansen, undergraduate studies director in the AU College of Arts and Sciences' Department of Economics, about the candidates' tax proposals. Her answer, though filled with nuance, is still rather simple: The more things change, the more they stay the same.

Of course, Hansen acknowledged, the economy has entered somewhat uncharted territory, the consequences of which might be grim for young voters. But no matter how much change either Obama or McCain promises, the candidates' tax platforms still epitomize their predecessors' famous theories, she said.

Obama, like most Democrats, preaches progressive taxes; that is, taxes proportional to income level. McCain, by contrast, supports a regressive platform; a system that taxes citizens less when their income rises, according to Hansen. [\(View the graphic\)](#)

In theory, progressive tax laws are fairer than their regressive opposites, she said. They distribute burden by ability in an attempt to generate national wealth without putting too much pressure on lower-wage workers. And these taxes are politically feasible and simple to sell: Fairness as a policy principle easily wins votes, especially when it is coupled with a promise of a bigger paycheck, Hansen said.

"My personal and political beliefs - what is the job of government? - leads me to believe that progressive transfers of resources are good," Hansen said. "It may not be as rich as a society that has a more regressive tax structure, but it's a society I prefer to live in."

PAYING THE PRICE OF A BIGGER PAYCHECK

To younger voters, that's why Obama's plan probably sounds most appealing, said professor Donald Williamson, director of the accounting program in AU's Kogod School of Business. The Illinois senator's tax platform reverses most of the regressive qualities of the infamous 2003 Bush tax cuts, which were despised, albeit misunderstood, he said.

The plan, according to Obama's Web site, includes a variety of income tax breaks for families making under approximately \$227,000 a year - in other words, cuts for more than 60 percent of all U.S. taxpayers. Included in those cuts is a \$1,000-maximum "Making Work Pay" credit, designed to help individuals or families struggling to meet the costs of living, and new saving incentives for incoming college students.

At least numerically, Obama's plan bodes well for graduates. According to [the National Association of Colleges and Employers' 2008 job survey](#), recently employed liberal arts and engineering graduates have boasted average starting salaries of about \$33,000 and \$64,000, respectively. Although the survey was conducted long before this month's economic downturn, those averages are still far below Obama's margin for tax increase. In other words, Obama's plan would offer college alumni some small gains in after-tax pay.

However, according to Williamson, college seniors and graduates should be wary: Obama's plan is more euphoric than it is helpful. At a time when the U.S. economy is constraining the job market - [September witnessed the highest unemployment rate in five years](#) - income tax cuts do nothing for job security, he said.

"I'm gonna pay you \$50,000 a year, and whether 25 percent of it goes to the government or 30 percent of it goes to the government, it doesn't impact whether I'm gonna hire you," he said. "What impacts my decision is my [corporate] taxes: What am I going to have left when the day is done to give to you? The tax policy that impacts students is not the rules that would affect their lives personally, but the rules that would affect their potential employer's life."

And it doesn't help, Williamson added, that Obama would offset his cuts with increased taxes on the top 1 percent of all taxpayers and higher corporate taxes. No matter how high the forthcoming hikes are, an Obama administration still could not afford its own tax cuts, much less its massive health care proposal, which [the Tax Policy Center at the Brookings Institute estimates](#) will cost the federal government about \$1.6 trillion. That excluded, the Tax Policy Center predicts that Obama could eventually add more than \$3 trillion to the federal debt - one of the very issues he has campaigned against.

"Clearly, any tax cutting, given the constant level of growth, is going to increase the deficit and the debt," Hansen said, later noting that the United States must pay interest on every dollar of what it owes. "And the interest burden can be a problem too, because if we're using our taxes to pay interest on debt, that's not, by definition, productive. That's the problem in third-world countries; a large portion of their tax receipts must go to debt service."

In the United States, this fiscal problem could undermine many of the cuts and benefits Obama's platform offers new workers. Recurring deficits and expanding debts constrain growth and deter investment. And new, young workers are usually the first demographic overlooked or fired during times of economic crisis, Williamson said.

But the real impacts of Obama's tax policies are still mostly speculations, according to the Tax Policy Center's study. The candidate's statements on the trail do not always match up with his policy platform, so it is hard to measure how much money Americans may save or lose under his watch, the center reported.

"When [the candidates] come in January, it's going to be a brave new world," Williamson said. "I don't care what they're saying on the campaign stump, the income tax is going to go up. Both of those platforms are campaign rhetoric at this point."

THE "FREEZE" THAT FUELS THE FIRE

In Kogod senior Patty Nollet's opinion, the issue of taxes is more personal than the lifeless numbers suggest.

"If the economy wasn't so bad right now, people would not be focusing so much on the cuts," she said. "Taxes are always a large issue, but it's even bigger this year because people are forced to watch every dollar they spend."

That's why McCain has experienced such difficulty selling his cuts to the public, Hansen said. His regressive platform, which would theoretically generate more growth, would offer cuts to every tax quintile - including the nation's wealthiest, a demographic that Obama asserts does not need the cuts.

Under McCain's watch, the top 1 percent of income earning households would notice a more than \$45,000 change in their taxes; a far cry from the \$19 break that voters making under \$20,000 a year would also receive through his plan.

"But the higher tax bracket, facing a lesser burden, can put more money back into the markets, which allows for lower tax brackets to borrow, which is important now," Nollet explained.

Despite that historic feature of regressive taxes, McCain's revised "trickle-down" tax code could actually add more to the debt. The Tax Policy Center estimates that McCain's platform, even if implemented alongside more careful spending, would add \$5.1 trillion to what the nation already owes - almost double what Obama would add.

To counter criticisms, McCain has proposed a "spending freeze" - a moratorium on all discretionary spending except such bare essentials as defense and veterans' care. The goal, McCain reiterated during the Oct. 7 debate in Nashville, Tenn., is to halt new expenditures and pause old ones until his administration can evaluate the federal budget line by line.

However, McCain has yet to provide many specifics, including which programs he would exempt from the freeze. This, in particular, is of worry to many college students: Discretionary spending includes education and financial aid, notably the federal Pell Grant, a need-based per annum award reserved for families struggling to pay for college. In this fiscal year, [the Department of Education awarded](#) more than 5 million new families this kind of federal gift aid - a total of \$16 billion, according to its Web site.

The McCain campaign declined to comment on the freeze for this article. But, presumably, the effects of such a freeze could be costly: Students have experienced some difficulty this year soliciting private loans to supplement the rising costs of higher education, according to Shirleynne McDonald, AU's assistant director of Financial Aid. The credit crunch has reduced the private loan lending pool, so the loans themselves have become more competitive.

That, she added, presents students with a major problem: AU (and many other universities) directs students to private lenders as last resorts - as sources of funding once they have exhausted all of their federal aid, the Pell Grant included.

THE 'GENERATION OF THE ENTITLED'

According to Altounian, most students won't notice any changes in their taxes or the economy, no matter who wins the presidency. A self-admitted victim of privilege, she said she believes some of the most vocal youth voters, even those who are conscious of endemic economic problems, have never had much of a reason to worry about the status quo.

"I never really thought about the economy before the downturn," she said. "I grew up in the '90s, part of an 'entitled' generation of youth who has never really lived through hardship. This economic crisis is really opening my eyes, and I'm bracing myself for some difficult years."

Altounian said she instead views her untimely epiphany in the presidential election as a curse. The intersection of the economic crisis and the political election presents a new chance for her to learn everything she's missed - even if it is the worst time to learn it, she said.

Instead, according to Nollet, who has studied finance her entire academic career, the candidates - and the reporters covering them - have inundated young voters with information. As a result, they have exacerbated the problem: A wealth of reporting is no substitute for understanding, the effects of which are now glaringly obvious, she said.

"I don't think either candidate understands the economy enough to explain it in layman's terms and have others get it," she said. "And the partisan bickering puts too much focus on taxes, so people are getting a skewed vision of what potential cuts mean for them."

Despite students' uncertainties about the direction of the economy, the 2008 election does offer the candidates one moment of clarity, Diallo said. Better exposition, no matter what form it takes, is necessary - especially if the candidates truly wish to engage young voters.

"In a recession, the effects are amplified for college students; jobs decrease, wages decrease," she said. "Both politicians need to address these fears. I think it's up to politicians and the media to explain the impact of policies that truly affect us."

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K.H.
posted 10/24/08 @ 11:35 PM EST
 You know what they say... everyone's a socialist until they start paying taxes.

And, funny that one could even begin to suggest that the policies advocated in Washington right now or advocated by either Obama OR McCain suggest anything NEAR "fiscal discipline". [\(Continued...\)](#)

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