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## **Tax Cuts for the Wealthy: Waste More, Want More**

By ROBERT H. FRANK

WITH President Bush's proposed tax cuts for top earners struggling to get political traction in early 2001, Representative Tom Osborne, Republican of Nebraska, rose to the White House's defense on the House floor.

"The bottom line is that it's your money," he said, "and you know how to spend it much better than anyone in Washington, D.C."

In the years since, variations of this statement by the president and other government officials have kept opponents of high-end tax cuts consistently on the defensive.

This talk has been effective in part because it appeals to voters' common sense. After all, people have an obvious incentive to exercise care when spending their own hard-earned dollars. Why would a faceless bureaucrat in Washington, who is spending someone else's money, be nearly as careful?

The "it's your money" line is also buttressed by widely reported examples in which government paid far more than necessary to get the job done. Famously, the Pentagon once spent \$640 for a single toilet seat and on another occasion paid \$435 for an ordinary claw hammer.

But paying more than the market rate is just one form of wasteful spending. Another, often far more important, form is to pay a fair price for something that serves little purpose. This second form of waste is considerably more common in private spending than in public spending - and made even worse as the chief beneficiaries of the tax cuts race to outdo one another.

A case in point is a decision on many minds at this time of year, that of how much to spend on a wristwatch. Scores of full-page ads in recent issues of The New York Times have displayed handsome watches costing several thousand dollars apiece and more.

The most coveted among them are elaborate mechanical marvels with multiple "complications," special features that enhance their accuracy. The tourbillon movement, for example, is essentially a small gyroscope that rotates the main mechanism about once a minute, reducing errors caused by the Earth's gravitational field. The Grande

Complication, by Jean Dunand, sells for more than \$700,000, but lesser entries by Patek Philippe, Rolex and other manufacturers can be had for \$5,000 to \$100,000.

Unlike toilet seats and claw hammers, these watches are costly to produce, so buyers who pay high prices for them are not being ripped off. In another sense, however, their dollars go largely for naught. For despite their mechanical wizardry, none of these watches are as accurate as a battery-powered \$30 Timex, whose quartz crystal mechanism is unaffected by gravity.

Then why do people buy the expensive mechanical watches? Edward Faber of the Aaron Faber Gallery in Manhattan recently described buyers of these watches as men from 30 to 50 who want "this 'power tool,' this instrument on their wrist that distinguishes them from the pack." The problem is that if a watch is to distinguish its owner, it must sell for more than the watches worn by members of the pack. So when the pack spends more, the price of distinguishing oneself also rises. And in the end, no one gains any more distinction than if all had spent less.

Other forms of high-end private spending are driven by similar forces. To celebrate their daughter's 13th birthday, for example, Amber Ridinger's parents bought her a \$27,000 Dolce & Gabbana gown and hired JaRule, Ashanti and other popular entertainers to provide live music at her party in Miami last month.

David H. Brooks, the chief executive of a company that supplies body armor to the American military in Iraq, invited 150 of his daughter's friends to the Rainbow Room atop Rockefeller Center in Manhattan, where they were serenaded by 50 Cent, Don Henley, Stevie Nicks and other luminaries during a birthday party reported to have cost \$10 million.

Although these events have prompted much finger wagging by social critics, the parents involved are not behaving abnormally. They are merely spending their own money in an effort to provide a special occasion for their daughters. For a party to be special, however, it must somehow stand out from other parties that define the norm. Here, too, the problem is that expensive birthday parties have become a growth industry.

Kevin and Danya Mondell, founders of Oogles-n-Googles, a company described as an over-the-top event planner for children's parties, recently announced their intention to license Oogles-n-Googles franchises. Yet no matter how much parents spend, the number of parties that achieve special status will be no greater than when everyone spent much less.

On balance, then, there is little reason to expect large tax cuts for wealthy families to have resulted in a more efficient allocation of our nation's scarce resources.

For one thing, not all of the dollars used to finance these tax cuts would have been spent wastefully by government. Most of the money recently cut from the food stamp program, for example, would have been spent by poor families to buy food at fair market prices.

And even though government does buy some items at inflated prices - body armor whose price includes a profit margin large enough to finance a \$10 million birthday party? - many of these items serve vital purposes.

In contrast, most of the tax cuts financed by recent budget cuts will go to families that already have everything they might reasonably need. This money will be deployed in the quest for "something special." Yet because special is an elastic concept, the number of families that succeed in this quest will be little different from before.

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