



As we head into the political season, conservatives will no doubt return to the old playbook they have used to win elections time and time again.

With this series of issue briefs, the Democratic Leadership Council is addressing those tired arguments head on. By proposing concrete solutions—and suggesting how to talk about them—we hope to equip tomorrow’s leaders with an agenda that will address the nation’s most pressing challenges.

Fiscal & Tax Policy

by Paul Weinstein Jr. & Marc Dunkelman

During the first half of this decade, when Republicans controlled the Congress and the White House, it became clear that the GOP’s rhetoric on the deficit was hollow, bereft of any real commitment to reigning in the government that George W. Bush has grown to record size. As a result, when Democrats regained control of Congress last year, they were faced with a fiscal crisis driven by six years of record spending, a growing, hidden government workforce of consultants and contractors, and the fallout from a series of inefficient tax cuts that have increased the tax burden on the middle class.

LIKELY ATTACKS

Despite their dismal record in office, few can doubt that conservatives will once again this year pull out their classic playbook and try to unfairly label progressives as old “tax-and-spend” liberals. Progressives should get ready to defend against the following attacks from conservative hacks and politicians:

- Progressives will raise taxes and ravage the economy (ensuring we go into recession), while conservatives will lower taxes, make President Bush’s tax cuts permanent, and eliminate the “death” tax.
- Progressives believe in big government, while conservatives believe in empowering ordinary people.
- (If the Bush Tax cuts are not renewed) Americans will face a \$3 trillion tax hike, stunting economic growth.
- President Reagan proved that deficits don’t matter.

COMMON MISTAKES

Too often, progressives shy away from fiscal responsibility, fearing that conservatives have better talking points. So, in an environment where the Bush administration has proven that progressives have claimed the higher ground, it’s important that we not make either of two common mistakes:

- **Letting Republican Tax Attacks Go Unanswered:** Too often progressives respond to the accusation that they would raise taxes by changing the subject. They need to convince voters that they will be better stewards of the economy, and while we need to balance the budget, progressives are also committed to cutting the size of government and providing relief for the middle class.
- **Assuming That Voters Know the Bush Record:** It’s obvious to those who pay attention, but many voters may not tie the souring of the economy to the Bush administration’s reckless spending. Progressives need to connect the dots.

OPPORTUNITY

Democrats should take advantage of having successfully claimed the mantle of being the party of fiscal responsibility and tax reform.

- **Bridging the Trust Gap:** By demanding that the federal government live within its means, Democrats can show that they are guided by the same values that drive working families who live from paycheck to paycheck. To become the champions of fiscal responsibility and true tax reform (closing tax loopholes, not just raising taxes), progressives will also have to take on the special interests that defend an ever-growing litany of spending programs and tax loopholes. That fight will allow us to grab the mantle of reform.

- **Winning Swing Voters:** Progressives can use the deficit and tax reform issue to split moderates and independent voters from the Republican right.
- **A Necessary First Step Toward Addressing National Challenges:** As long as our government remains awash in red ink, the prospects for real progress in addressing many of our toughest challenges are drastically diminished. In fact, even if the government's books weren't so horribly out of balance, the prospects for enacting real reform are dimmed by the continued burden of the public's perception that progressives would return to a "tax-and-spend" mentality.

SOLUTIONS

For progressives to reap the rewards of fiscal responsibility and tax reform, they must first do the following:

Explain that the Bush Administration has Been Reckless—and Grown the Bureaucracy

- George W. Bush came to office and proclaimed, "We can proceed with tax relief without fear of budget deficits, even if the economy softens."
- But then, the Republican-controlled Congress passed and the president signed the largest tax cuts in a generation—tax cuts disproportionately skewed toward the wealthiest citizens—while increasing spending at a rate (7.1 percent) nearly twice that of the Clinton administration.
- As a result, the Bush administration turned a surplus projected to be \$5 trillion over 10 years into a deficit projected to be more than \$2.8 trillion—a \$7 trillion reversal into the red.
- Moreover, the Bush administration has let tax cheats off the hook: The difference between what taxpayers were obligated to pay and what they actually paid on a timely basis is estimated at \$345 billion, according to the IRS.

Hammer Home How Dramatically Republicans Have Raised the "Debt Tax"

- Today, the national debt stands at more than \$9 trillion, a 56-percent increase (or \$3.3 trillion) since President Bush took office.
- That's \$29,728 for every man, woman, and child living in the United States.

Demand that the Time has Come for the Government to Live Within Its Means

- In 2008, the United States will run a deficit of \$371 billion dollars, while holding \$5.2 billion dollars in debt, according to the non-partisan Congressional Budget Office.
- That's the equivalent of the average American family this year (which earns \$48,000 a year) spending more than \$55,000 a year—\$7,000 (or 14 percent) over the family budget.

- That's a big change: Under President Clinton's last budget, a similar family would have been putting \$5,000 into savings.

The Bush Deficit Has Dangerous National Implications

- The deficit is a national security issue. Because of our low national savings, the United States has had to borrow heavily from foreign countries. Foreign ownership of U.S. Treasury bonds alone increased \$1.2 trillion in the first five years of the Bush administration. Much of this money belongs to governments whose interests do not always mesh with our own.

1. Japan	\$581 billion
2. China	\$387 billion
3. United Kingdom	\$316 billion
4. OPEC Nations	\$128 billion
5. Brazil	\$121 billion
6. Luxembourg	\$75 billion
7. Caribbean Banking Centers	\$72 billion
8. Hong Kong	\$55 billion
9. Taiwan	\$50 billion
10. South Korea	\$44 billion
11. Germany	\$41 billion
12. Singapore	\$37 billion
13. Mexico	\$35 billion

- Deficits make it harder for our nation to invest for urgent needs, whether in the public sector or the private sector, whether in the short-term or the long.
- When we borrow money without paying it back, we bequeath to our children and grandchildren much higher tax rates and fewer public benefits.

Bush's Recklessness Has Worsened the Housing Crisis

- **America is in the midst of the worst housing slump in 16 years.** Across the country, home sales are in decline, and prices are falling. Meanwhile foreclosures have hit record-high levels, and millions of other Americans are at risk of losing their home. Yet because of the Bush administration's wasteful spending and reckless fiscal policies, the federal government lacks the financial wherewithal to help stem the housing crisis and provide help to millions of homeowners.
- **There is a better way.** At the end of World War II, America's debt exceeded its entire gross domestic product. Yet rather than throwing up their hands, our parents and grandparents whittled down their deficits. By the Kennedy administration, the ratio of debt to GDP was back down to where it was before the war. What did the "greatest generation" know that the Bush administration doesn't? Simply this: Opportunity, not debt, is the legacy we owe to future Americans. It will be for the next president to take this vital lesson to heart.

Progressives Will Get Tough on Federal Spending

Throughout the 2004 presidential campaign, Sen. John Kerry (D-Mass.) railed against the Bush deficits. Yet, the senator chose to emphasize rolling back the Bush tax cuts for the wealthy rather than offering a plan of specific spending cuts to reduce the deficit. Combined with his litany of new spending proposals for health care, education, and defense, Kerry was never able to convince voters or the media that he would be more fiscally prudent than Bush. On an issue that the president clearly should have lost, Kerry could achieve no more than a draw.

The lesson for liberals and moderates is that they must be willing to make not only the right choices on taxes, but also the tough choices on spending. This means, at a minimum, offering real, specific spending cuts, not just budget process reforms. Among the specific spending cuts we could offer are the following:

- **Cut Government Contractors by 750,000:** The Bush administration has hired 2.4 million government contractors—more than the total number of regular government employees. (10-year savings: \$284 billion)
- **Reduce Government Travel:** During the Bush years, the cost of government travel grew 55 percent—at the same time teleconferencing and Internet access made communicating more affordable. (10-year savings: \$18.5 billion)
- **Ban Bonuses for Political Appointees:** During the second year of his administration, President Bush doled out \$1.44 million in bonuses to 470 appointees. (10-year savings: \$15 million)
- **Cap the Acquisition of New Federal Office Space:** During a single two-year period, the Bush administration grew the cost of acquiring new office space by 7 percent—more than \$300 million. (10-year savings: \$351 million)
- **Fewer No-Bid Contracts:** In 2003 alone, the Bush administration spent \$40 billion more than the Clinton administration had on no-bid contracts. (10-year savings: \$53.5 billion)
- **Corporate Welfare Commission:** Create a commission to reduce corporate welfare expenditures, including both tax breaks and spending programs that aid companies that do not need or deserve the government subsidies (10-year savings: \$250 billion)

RESOURCES

- McMinn Campbell, Katie and Paul Weinstein, Jr., “Return to Fiscal Responsibility II” Progressive Policy Institute, April 2007, http://www.ndol.org/documents/Fiscal_Responsibility_04302007.pdf.
- Irons, John S. and David Madland, “Responsible Investment: A Budget and Fiscal Policy Plan for Progressive Growth,” Center for American Progress, January 2008, http://www.americanprogress.org/issues/2008/01/responsible_investment.html.

Progressives Have a Proven Track Record on the State and Local Level

- **Government-wide Performance Reviews:** In 2003, New Mexico Gov. Bill Richardson initiated a top-to-bottom performance review of state programs to find savings and efficiencies in 22 state agencies that would not have been unearthed during the routine annual budget process. After a six-month intensive effort, the New Mexico Performance Review announced \$28 million in first year cost savings with \$400 million in savings over five years.
- **Online Reverse Auctions:** In Delaware, Gov. Ruth Ann Minner and State Treasurer Jack Markell cut costs using reverse auctions conducted online. In the case of something as simple as trash liners, the state saved \$94,000 on a single contract.
- **Cut Bureaucratic Waste:** San Francisco Mayor Gavin Newsom came up with \$6 million of savings by reducing the city's car fleet, cutting cell phone services, and trimming down copier and printer related expenditures.

Progressives Will Offer Bold, New Budget Reforms

Progressives are right to support restoring the budget reforms of the 1990s. Budget caps and pay-as-you-go (PAYGO) rules were vital steps in restraining spending and eliminating the deficit. But we must go further. In addition to budget caps and a real PAYGO rule that requires offsets for new entitlements as well as tax cuts, progressives should propose an agenda that would include new reforms, such as:

- “PAYGO Law,” which will require, in statute, that the government live within its means;
- Supermajority vote requirement for emergency spending and tax breaks for special interests;
- Constitutionally valid line-item veto; and
- Establishment of a “rainy day fund” to hedge against economic downturns.

RESOURCES

- Strengthening the Budget Process Resolution (Blue Dog Coalition)
<http://www.house.gov/ross/BlueDogs/Press%20Releases/Blue%20Dog%20Coalition%20Unveils%20Fiscal%20Accountability%20Package.html>.
- Keith, Robert, “Federal Budget Process Reform” Congressional Research Service, July 2007,
http://assets.opencrs.com/rpts/RL33818_20070710.pdf.

Propose Tax Reform, Not Tax Increases

While conventional wisdom holds that progressives can't win the tax debate, the reality is the opposite. In fact, as a recent poll by Democracy Corps showed, “Republicans have no starting advantages on taxes” in 65 key congressional districts. I But to win this debate

requires progressives to offer a real choice in the form of: a comprehensive tax reform package that would simplify the code; provide tax relief for the middle class and working poor; and raise revenues (by closing unfair loopholes and rolling back those portions of the Bush tax cuts that benefited the few at the expense of the rest of us). The savings will be used in part for deficit reduction and for a few key investments, such as expanding access to college and affordable health care. In addition, progressives should consider ways to consolidate and streamline many of the existing tax breaks for higher education, retirement, and families, into three super credits.

RESOURCES

- Fair Flat Tax Act of 2007, 110th Congress, 1st sess., S. 1111, <http://www.house.gov/emanuel/taxlegislation.shtml>.
- Tax Reduction and Reform Act of 2007, 110th Congress, 1st sess., H.R. 3970, <http://waysandmeans.house.gov/media/pdf/110/Summary%20for%20Distribution.pdf>.
- Weinstein, Jr., Paul, "Family Friendly Tax Reform," Progressive Policy Institute, April 2005, http://www.ppionline.org/ppi_ci.cfm?knlgArealD=125&subsecID=163&contentID=253276.

"Bring It On: Winning the Debate on Taxes and the Economy," Democracy Corps/Greenberg, Quinlan, Rosner, January 15, 2008

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