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Advice to Obama: Kill the Bush Cuts, Create Your Own
By LAWRENCE HAAS

After Election Day, President Obama will surely face a far more conservative, more Republican Congress. Here's how he can begin to regain his political footing, reclaim the fiscal agenda, and do the country a huge favor.

When Congress returns in mid-November for its lame-duck session, lawmakers will face two central fiscal issues: what to do about President Bush's tax cuts for American families that are due to expire by year-end, and how to finish the appropriations bills that fund the government.

Public attention, however, is overwhelmingly focused on the tax cuts, and that's where Obama should make his mark. Specifically, he should shift his position and insist that all of the cuts expire but, at the same time, propose his own new two-year tax cut to boost the economy in the short term. Here's why.

Obama has previously proposed to extend Bush's tax cuts for all families that make up to \$250,000 a year – that is, 98 percent of all taxpayers – while Republicans insist on extending the tax cuts for everyone, warning of dire consequences for small business, investment, job creation, and other popular interests if Obama gets his way.

What's true today, however, will be true a month from now: Washington faces a frightening fiscal future of soaring deficits and debt. Extending the tax cuts, which would add nearly \$4 trillion to the debt, is simply unaffordable. Having said that, the White House and Congress probably should avoid serious deficit-cutting until the economy is much stronger, perhaps a year or two from now.

So, lawmakers and budget experts of all stripes are busily proposing variations on a theme – make all of the tax cuts permanent; make the “middle class” tax cuts permanent; extend some or all of the tax cuts for two years and then let them expire; extend them temporarily and decide at some future point whether to extend them permanently.

Focusing on Bush's tax cuts doesn't do Obama or the country much good. Obama, however, can shift the terms of debate by offering an out-of-the-box idea that would address both the short-term economic problem as well as the long-term fiscal problem – and on his own terms.

Here's what he should do when Congress returns in mid-November:

First, he should declare that, having thought it over, he will now veto any congressional attempt to extend any of the Bush tax cuts. He would explain that the nation simply can't afford it, that letting the tax cuts expire is the single most important thing he can do at this point to restore some fiscal sanity, and that, consequently, tax rates will simply return to those in effect in the 1990s when the economy grew strongly.

Second, and with his eyes on the weak economy, he should propose his own new two-year tax cut – one that would be large enough to offset the higher taxes for the next two years from letting the Bush tax cuts expire and that would include the best short-term measures for boosting the economy.

For instance, he could propose:

- To extend, for the next two years, his Making Work Pay tax credit, which gave up to \$400 per individual and up to \$800 per couple to 95 percent of Americans in each of the last two years but which expires on January 1. That would remind Americans that Obama gave them a tax cut in the first place as part of the 2009 American Recovery and Reinvestment Act, and it would put more money in the hands of tens of millions of Americans, boosting their purchasing power and putting billions of dollars back into the economy.
- To create a two-year holiday on payroll taxes for employers who hire new workers. That is, employers who make such hires would not have to pay the payroll taxes owed on those individuals. That would enable Obama to take ownership of a proposal that's floating around Capitol Hill in different versions and encourage hiring at a time when nearly one in ten workers is unemployed.

Obama could propose other temporary tax cuts as well, including some Republican ideas, which would enable him to challenge the GOP to work with him on a bipartisan plan to further stimulate the economy through tax cuts.

Third, and with his eyes on the public's anti-spending fever, he should reiterate his previous call for a three-year freeze on non-security discretionary spending, promise to veto appropriations bills in the coming years that have more total funds than he requested for programs covered by each bill, and promise to veto spending bills that contain any congressional earmarks. That would enable him to respond to polls showing that voters overwhelmingly believe federal spending is out of control – and that earmarks are a tangible sign of it.

All told, this multi-faceted approach would enable Obama to change the terms of debate in Washington, shifting the focus from Bush's left-over agenda to Obama's new ideas. It also would enable him to address the nation's short-term economic problems and significantly reduce its long-term fiscal challenges.

It's a bold strategy – but a savvy one for a weakened president who will face a far less friendly political terrain after November.

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