

The Fiscal Times

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Pawlenty Selling Snake Oil for a Budget Plan

By LAWRENCE HAAS

Republican presidential candidate Tim Pawlenty's budget speech this week was a masterful combination of bluster and sleight-of-hand, one that promised candor while selling snake oil.

"I promised to level with the American people," he says early on, noting that he has called for phasing out ethanol subsidies that largely benefit the first-in-the-nation caucus state of Iowa, raising the retirement age for future generations of Social Security recipients, and means testing the annual cost-of-living adjustments for those recipients.

Fine. That would help reduce deficits in the years ahead (although the Social Security changes are far more significant than the ethanol one). They represent, however, just a first step to address deficits that are expected to average \$1 trillion a year over the next decade and an unsustainable 6 percent of GDP before heading much higher in the decades after that.

That's about where Pawlenty's courage ended and his intellectual flim-flam began.

First, he says we should aim for five percent annual economic growth, rather than the barely two percent of recent years.

It's hard to argue with that one. But, five percent is not attainable in the short term, nor is it attainable for a sustained period even in the long term.

For one thing, the economy is continuing to climb its way out of recession and probably will be for the next several years. It can't, and won't, grow at five percent any time soon.

For another, even Pawlenty knows that five percent growth is a stretch because he cites two recent periods of strong growth – 1983 to 1987 and 1996 to 1999 – and while each came close to five percent, neither attained it. Thus, Pawlenty proposes a growth level that, even in the best of circumstances, is almost certainly beyond reach.

Second, he says we should dramatically cut corporate and individual tax rates and, on the individual side, also end all taxes on capital gains, interest, dividends, and estates.

But, for all his promises to "level with the American people," he never mentions that the only way to even partially offset the revenue drain is to dramatically scale back, if not end, the tax-

free treatment of employer-provided health care, the mortgage interest deduction, the deduction for state and local taxes, and other popular tax breaks.

Third, he calls for balancing the budget and proposes that Congress give the president emergency power to “impound” – that is, not spend – up to five percent of the budget until it reaches balance.

He doesn’t specify what five percent he would impound. But the budget is not generalities. It is specifics.

And, specifically, budget spending is dominated by Social Security, Medicare, Medicaid, and defense. If he wanted to protect any of those programs, he’d have to cut more from the rest – things like the FBI, border security, environmental protection, education, medical research, homeland security, and veterans’ medical care.

A presidential candidate who promises to “level with the American people” can clearly do better than this.

The Fiscal Times

June 6, 2011

GOP's Destructive 'No Tax' Policy

By LAWRENCE HAAS

Today’s front-page piece in the *Washington Post* about the Republican evolution to no-tax absolutism showcases how profoundly unserious, infantile, and destructive the Republican Party has become on fiscal policy.

At its most basic level, budgeting is simple. Policymakers must decide what the federal government should do – from defending the nation to promoting economic growth to caring for the most vulnerable – and then decide how best to pay for it. Thus, budgeting is inherently a two-sided process of spending and revenues.

Budgeting is also a question of choices. Policymakers must weigh claims for spending (e.g., more for defense, more for health care, more for education) and decide which claimants make the best cases for federal largesse.

But, the modern incarnation of the Grand Old Party refuses to consider fiscal policy in its entirety and has decided – before considering anything else – that it will not raise taxes for

anything. Almost to a person among its elected officials in Washington, it has taken the no-tax pledge of leading anti-tax activist Grover Norquist – a pledge, Norquist says, that rules out even proposals to kill outrageous tax loopholes.

The issue isn't whether to address our looming deficits and debt with higher taxes. That's for policymakers to decide through a serious process. The problem is that one of America's two political parties – one that dates back to the days of Lincoln – has decided it will not engage in such a serious process.

House Speaker John Boehner calls tax increases “unacceptable and a non-starter” while Republican Senators Saxby Chambliss, R-Ga., Mike Crapo, R-Idaho, and Tom Coburn, R-Okla., face withering criticism from Norquist for engaging in “Gang of Six” negotiations with three Democrats to craft a deficit-reduction plan with spending cuts and tax increases. That intimidation forces every other Republican who would even consider tax hikes back in line.

For most Republicans, it's only when they leave office that they find the courage to say publicly, as retired Senator Judd Gregg, R-N.H., told the *Post*, that we probably need tax hikes to accompany spending cuts.

That means that, for virtually every sitting Republican official and every Republican presidential aspirant, it's no tax increases for anything – presumably even in case of emergency such as war, terrorist attack, or pandemic outbreak.

That presumably also means no tax increases even in case of an economic emergency, including one generated by our huge deficits and debt, or even in the face of the recent threat by Moody's Investors Service to downgrade U.S. federal debt if the nation's leaders do not quickly find a way to reduce the red ink.

Stubbornness of this kind is normally associated with little children. It's not worthy of the nation's elected leaders.

That's why, on fiscal policy, the Grand Old Party of Lincoln, Teddy Roosevelt, Eisenhower, and Reagan has become the Infantile New Party of Boehner and Senate Republican leader Mitch McConnell in Congress and of a host of presidential aspirants.

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June 3, 2011

Simplify the Tax Code, But Leave 1986 Out of It

By LAWRENCE HAAS

Interest is growing in tax policy circles in a new round of tax reform, with many experts hoping the White House and Congress will enact legislation that's roughly modeled on the landmark Tax Reform Act of 1986.

Before moving too far down that path, however, they might want to keep in mind how different the world of 2011 is from that of 1986. Three major differences immediately come to mind:

First, as the effort of the 1980s got underway, President Reagan mandated that tax reform be "revenue neutral" – that is, that policymakers not use tax reform as a vehicle for raising federal revenues.

That may have been fine at a time when we faced large, but not explosive, deficits and when policymakers had already made progress in reining them in, as they had with major legislation in 1982, 1983, and 1984. But, it's not fine today, when we face truly explosive deficits that many experts believe will require tax increases to accompany whatever spending cuts are enacted.

Second, the 1986 act shifted tax burdens from individuals to corporations – that is, policymakers financed their cuts in personal tax rates partly by raising taxes on corporations.

That may have been fine at a time when our economy and our corporations dominated the world more than they do now. But, it's not fine today, after most of our major competitor nations have cut their corporate tax rates, making our 35 percent marginal rate unusually high by global standards and putting our corporations at a competitive disadvantage with those headquartered elsewhere.

Third, the 1986 act included what's called the alternative minimum tax (AMT), which was designed to ensure that no wealthy individual could avoid paying at least a minimal level of taxes.

That may have been fine at a time when newspapers were running stories about corporations and individuals who didn't pay taxes. But, it's clearly not fine now because of how policymakers structured the AMT.

Because the income threshold at which a person faces the AMT does not rise with increases in average incomes, the AMT has the potential to hit tens of millions of middle-income Americans with more taxes. That's why Congress routinely raises the threshold on a temporary basis, ensuring that only one or two million households a year face the AMT. And it's why tax experts generally agree that, in reforming the code, Congress will have to kill the AMT altogether.

No one doubts that the tax code is now a complicated mess, with many Americans suspicious that, with their high-priced accountants, the rich find ways to game the system and pay less than they should.

This year's 25th anniversary of the 1986 act, which was surely a major bipartisan achievement, is nourishing interest in another round of tax reform. Yes, let's simplify the tax code. But, let's not assume that an updated version of the 1986 act is appropriate for a world that is far different than that of 1986.

The Fiscal Times

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Struggling to Understand the GOP Debt Limit Vote

By LAWRENCE HAAS

With regard to tonight's House vote to raise the federal debt limit, let's see if I understand this correctly.

House Republicans oppose a "clean" debt limit increase – that is, legislation that would do only one thing: raise the limit on allowable federal debt. They insist that Congress must accompany any debt limit increase with deep spending cuts and, depending on whom you ask, perhaps also a cap on annual federal spending, major reforms to Medicare and other entitlements, and a balanced budget amendment to the U.S. Constitution.

Republicans control the House. They run the committees; they decide what comes to the House floor. With 240 members in the 435-member body, they have more than enough votes to block anything they don't like.

But, somehow, that's not good enough. They have to show everyone – President Obama, congressional Democrats, the media – that a "clean" debt limit increase can't pass the House. That's why they're staging tonight's vote. They apparently believe that their word isn't good enough, so they want to prove with a vote that they oppose a clean debt limit increase.

But while House Republicans know that those in Washington see this as a political show, they're worried that, for some reason, the folks who run the financial markets in New York won't. They're concerned that, with the upcoming vote, the bond markets will come to believe that Congress won't ever raise the debt limit – or at least not before a possible default by early August.

That's why they plan to hold the vote well after the market closes late this afternoon. They don't want those dopes in New York to get the wrong idea.

Interestingly, they're apparently not concerned about what will happen when the markets open tomorrow morning. That's because House Republican leaders previously assured financial executives that they eventually will provide the needed votes before the government would ever default. They're just holding out now for the biggest possible spending cuts they can get from their negotiations with the White House and congressional Democrats.

"Wall Street is in on the joke," R. Bruce Josten, the U.S. Chamber of Commerce's savvy executive vice president, told the *New York Times* today.

So, if I understand the House GOP calculation correctly, Wall Street knows enough not to worry in the morning. But, somehow, it may not know enough not to worry if the vote took place before the market closed today.

Fascinating.

But it all begs another question: Why would House Republicans play games with the investments of millions of people that rise and fall with stock prices as well as with the nation's creditworthiness?

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