

The Fiscal Times
July 14, 2011

Democratic Tax Policy: Myth versus Reality
By LAWRENCE HAAS

On tax policy, let's stop pretending. For all of the Democrats' rhetoric about how they look out for average people while Republicans look out for the rich, there's hardly a dime's worth of difference between the parties.

It's all there in the new budget plan from Senate Budget Committee Chairman Kent Conrad, D-N.D. With all eyes focused on the debt limit talks, Conrad's plan has received little attention. But it speaks volumes about the difference between myth and reality when it comes to tax policy.

The notion of stark Republican-Democratic differences was always a bit of a canard. Republicans want to extend all of President George W. Bush's tax cuts, which disproportionately benefited those at the top as incomes were already rising only for those at the top. President Obama and most Democrats want to extend almost all of those tax cuts, ending them only for the 2-percent of households that earn more than \$250,000 a year.

With Conrad's plan, the inter-party gap narrows even more. In a plan that purports to save \$4 trillion over 10 years, Conrad would extend the Bush tax cuts for everyone except singles earning more than \$500,000 and couples earning more than \$1 million.

So, now, instead of the parties debating whether to extend tax cuts for the top 2 percent, Conrad would make the argument over the top 1 percent. Under the chairman's plan, you're probably safe from higher taxes even if you live in Potomac, Md., Great Neck, N.Y., or the tony suburbs of Boston, Chicago, or San Francisco.

If that's not enough, Conrad would extend the generous tax breaks Congress enacted for 2009 on estates of the very wealthiest Americans. The 2009 rules raised the value of estates that are exempt from federal estate taxes to \$3.5 million for singles and \$7 million for couples (from \$675,000 for singles and \$1.3 million for couples in 2001), while cutting the tax rate above those thresholds from 55 to 45 percent.

Yet, even after allocating \$765 billion in tax cuts, Conrad proposes to generate \$2 trillion in tax savings. How? By "closing tax loopholes, cutting tax subsidies, [and] promoting tax fairness." As part of that category, he would reduce "tax preferences for individuals" between 9 and 17 percent.

The biggest "tax preferences for individuals" are the tax-free treatment of employer-provided health care, the home mortgage interest deduction, the deduction for state and local taxes, and a variety of savings and investment preferences.

When it comes to tax deductions, the higher your income, the more valuable are your deductions. So, those same families in Potomac, Great Neck, and elsewhere benefit greatly from those particular write-offs.

Conrad didn't list the specific tax preferences (i.e., the ones cited above) that Congress would have to reduce in order to generate \$2 trillion in tax savings. Apparently, he didn't want to upset those well-to-do Americans in those tony neighborhoods.

That makes it even clearer that, on tax policy, Conrad and his Democratic colleagues are little different from Republicans.

The Fiscal Times
July 12, 2011

GOP Candidates' Free Pass From the Media By LAWRENCE HAAS

I don't know what's more pathetic – Republican presidential candidates who urge a GOP no-compromise stance in White House-congressional budget negotiations related to the debt limit, or media that doesn't explore the implications.

The *New York Times* reported over the weekend that “Republican presidential candidates were campaigning against any outcome that smacks of compromise, underscoring divisions in the party over whether to raise the federal debt limit.”

Rather than merely recite the manifestations of each candidate's no-compromise absolutism, reporters covering the candidates might want to ask a challenging question or two. Here are a few to ponder, based on the *Times*' story:

Rep. Michelle Bachmann, D-Minn., the tea party favorite, says she won't vote to raise the debt ceiling under any circumstances, telling supporters at a rally, “Don't let them scare you by telling you that the country's going to fall apart.”

Would she take that position as President of the United States, when she would have the power to veto legislation to raise the debt limit and, thus, let the government default? Does she not believe that a first-ever government default would roil financial markets and change the world's view of U.S. debt, leading (at the very least) to higher interest rates that would threaten an already precarious recovery?

Tim Pawlenty, the former Minnesota governor, says the budget discussion represents one of those “historic, dramatic moments when you can draw a line in the sand and force politicians to actually do something bold and courageous...”

Does “bold and courageous” include tax increases, on which congressional Democrats are insisting as the cost of agreeing to significant cuts in Medicare and other programs to reduce the

deficit? Is he willing to do something “bold and courageous,” like telling hard-core conservatives at the base of the Republican Party that, despite the party’s no-tax mantra, it’s time to compromise?

Does Pawlenty recognize that, as president, he would have to gather 218 votes in the House and (as a practical matter) 60 in the Senate to pass legislation, and that he won’t likely have that many Republican votes starting in 2013? Would he be willing to keep his “line in the sand” and, in the process, let the government default when, on his watch, Washington next needs to raise the debt limit?

Mitt Romney, the former Massachusetts governor, says he would agree to raise the debt limit only if it was “accompanied by a major effort to restructure and reduce the size of government.”

Would he advise that Republicans let the government default if policymakers do not find a way to restructure the main drivers of future spending – Medicare, Medicaid, and, to a lesser extent, Social Security – by August 2nd?

What would GOP presidential candidates do to get their way? And what does that say about their qualifications for the nation’s highest office?

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