Is the New Liberal Deficit Plan Any Good?

11/16/10
By Derek Thompson

Rep. Jan Schakowsky, a liberal member of the president deficit commission, revealed an alternative budget plan that would shave about $430 billion off the 2015 budget, mostly on the back of revenue increases and defense cuts.

The first thing to remember about this plan is that it is one liberal's idea of deficit reduction, rather than the chairmen's report, which was a conservative and a moderate's idea of politically tolerable deficit reduction. A plan that is two-thirds higher taxes and 2% domestic discretionary cuts is not a plan interested in attracting even conservative Democratic support. For the purposes of seeing a liberal deficit reduction plan, that's alright with me.

You can read the plan in PDF here . My annotated summary of her plan is here with short evaluations in bold comparing her plan with the chairmen's.

First, the Schakowsky plan includes a new $200 billion economic stimulus to spur growth immediately. This is a good idea and I hoped to see it in the chairmen's proposal. The economy's foremost problems today are a shortfall in demand and struggling states that could use another lifeline to spur recovery into 2011. Schakowsky would concentrate the $200 billion in cash-needy hands, state governments and infrastructure projects. All three areas are ranked highly effective stimuli by the Congressional Budget Office. To help offset the cost of this new stimulus, the plan raises taxes on overseas companies. **Point Schakowsky.**

Second, the plan's spending cuts are about 90 percent defense cuts. Whereas the chairmen called for $200 billion in cuts, half from domestic and half from defense spending, Schakowsky calls for $110 billion from defense and only $8 billion from domestic cuts. The defense cuts are similar, including reducing troop levels and cutting unnecessary weapons system. The domestic cuts are paltry. While I'd like to see a more aggressive effort to eliminate agricultural subsidies (she halves them), cut the federal workforce and kill earmarks, I also think the chairmen's report went a bit overboard on requiring $100 billion in non-defense discretionary cuts. **Tie.**

Third, the proposal creates a public option for health care (it lives again, sort of!) using Medicare rates to compete with plans on the exchanges, an interesting reform. It also allows Medicare to use its bargaining power for negotiate down drug prices and insurance plans -- but neither plan has a score from the fiscal commission. The chairmen's report included more ideas for paying for the "doc fix" in the short term and strengthening the Medicare reforms from the Affordable Care Act, but it lacks Schakowsky's game-changers. Health care reforms are speculative and hard to score, so while I like Schakowsky's gumption, I'll give this another **Tie**.

Then, we get to the meat of the proposal: the tax plan. She enacts the president's plan to let the Bush tax cuts disappear for the richest families and returns to the estate tax to its 2009 level. Then she gets $150 billion from higher taxes by: (1) taxing investment gains as normal income, raising effective tax rates especially on the wealthy and (2) installing a cap and trade regime that sends 50 percent of its income back to consumers as a rebate. The chairmen's plan includes the first idea, and I wish it included something like the second.

Second, she reduces tax expenditures, those bedeviled exceptions that deprive the Treasury of $1.1 trillion a year. But unlike the chairmen, Schakowsky's changes raise taxes on companies, only. She limits the deductibility of corporate debt (a measure that encourages companies to borrow money to expand) and raises taxes on companies that earn money abroad. All told, she gets $130 billion from removing tax benefits for companies without lowering the corporate income tax rate. The unfortunate upshot is that we would have one of the highest effective tax rates in the developed world, and companies would have a greater incentive to keep their businesses outside the US. **Point chairmen, barely.**

Finally, Schakowsky fixes Social Security without any cuts -- it's 100 percent payroll tax increases. Currently, Social Security taxes are split between employers and employees and they do not touch a dollar over the $106,800 cap. Her plan would kill the employer cap and raise the employee cap. In other words, employers would pay their 6.2% tax on all wages and employees would pay 6.2% tax on a higher ceiling equal to 90 percent of all earnings. For income above that ceiling, workers would pay a 3-4% sur-tax. This is a fairly radical idea that would raise the cost of work without seeking smart Social Security reductions for richer retirees. **Point chairmen.**

Conclusion: Chairmen win 3-2.

Is this a plan to reduce the deficit? Absolutely. But it is mostly a plan to increase taxes on businesses, rich people -- and especially rich businesspeople. Corporations would pay the government more of their business income. Employers would pay the government more of their employees' wages, while owing the feds more of their own wages, too. And investors would pay the government more of their investment income from corporate stock returns. A deficit reduction plan should also be a pro-growth plan. But the concentration of higher taxes on business, investment and upper-middleclass workers is troublesome, especially as the bottom half of the country is asked to give up practically nothing on top of enjoying its lowest effective tax rates in recent history.

There is a lot for a liberal to like in this plan, including the new stimulus, a cap and trade regime, and the protection of our welfare system. But there is very little for a conservative to like, or a moderate looking for a reasonable combination of budget changes that spread the pain reasonably rather that concentrate it for the privileged.

This article available online at:

http://www.theatlantic.com/business/archive/2010/11/is-the-new-liberal-deficit-plan-any-good/66651/