



OMB Watch
Tax and Budget Perspectives

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Moving Towards Long-Term Action on Tax and Budget Issues

Gary D. Bass
OMB Watch

John S. Irons
OMB Watch

Ellen Taylor
OMB Watch

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Gary D. Bass, John S. Irons, and Ellen Taylor

Summary

As a result of huge federal tax cuts, poor economic performance over the past 2½ years, and rapidly growing outlays for defense and domestic security, the federal budget situation has deteriorated at an unprecedented rate. States are faced with an equally bad fiscal situation. This picture is likely to be a long-term problem and has enormous implications for the role of government in our civil society.

Over the past several years, the public interest community has primarily engaged in short-term, defensive battles on federal tax and budget issues. The conservative movement, on the other hand, has continued to press its tax and budget agenda through well-funded, multi-year, and multi-level campaigns. Our community must seize the initiative on tax and budget issues if we are ever to succeed in promoting what we stand for – a fair, simple and equitable tax system that generates adequate resources to implement the government programs and services that Americans want. For the purposes of discussion, this paper lays out a call to action to develop a long-term (say, 10-year), proactive strategy on federal tax and budget issues – one that also directly confronts the negative perception of government programs and the continuous attacks launched by conservatives.

Many conversations in which OMB Watch has participated during the last few months, with advocates and funders alike, suggest a broad convergence of opinion around the need for our community to develop and put into place a long-term strategic effort that is proactive – to define and articulate in a concrete way what we are for, rather than only what we are against. On the issue of what we do want, we may have broad support from the public in three key areas: tax fairness, the uses of public revenues for addressing domestic investments, and support for a government that provides valuable services to its citizens.

One of the strengths of the progressive network is the large number of nonprofit organizations at the federal, state and local levels. By engaging those groups – some who have never participated in tax and budget issues, but are now seeing the need to do so – we can make progress in promoting a progressive, fair, sensible tax system and a sustainable framework for support of needed and valuable social investment.

OMB Watch has drafted this call to action but does not seek to “own” it. Instead, the plan is offered to spark discussion and infuse the sense of urgency that we, and many others, feel. The public interest community cannot be effective acting as solo, disparate groups – particularly when funds and resources are so limited. It is our expectation that if there is energy for a longer-term proactive campaign, various national, state, and local groups will emerge to provide the necessary leadership.

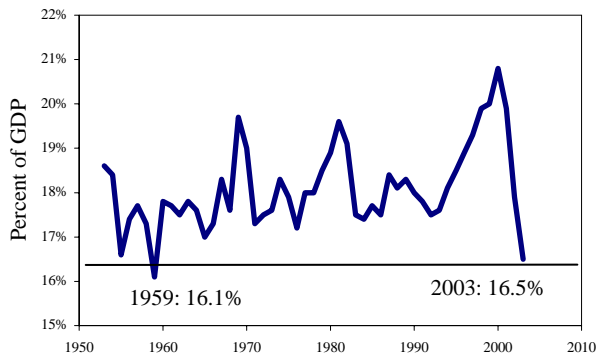
To get the ball rolling, OMB Watch plans on convening a strategy retreat to discuss the elements of a long-term offensive initiative, discuss lessons learned from current tax and budget battles at the state and federal level, begin creating a framework of more specific tax and investment principles and policies, and identify some immediate strategies to begin moving in this longer-term direction.

Gary D. Bass is the Executive Director of OMB Watch; John S. Irons is a Senior Economic Research and Policy Analyst and Staff Economist, OMB Watch; and Ellen Taylor is a Senior Policy Analyst, OMB Watch. Comments are welcome; please send to taxbudget@ombwatch.org.

Background

As a result of huge federal tax cuts, poor economic performance over the past 2½ years, and rapidly growing outlays for defense and domestic security, the budget situation at both the federal and state levels has deteriorated at an unprecedented rate. At the federal level, record surpluses have turned into record deficits; and, at the state level, governments have just faced their worst budget crises since World War II, with every indication that the problems will be long-term. In addition, at 16.5 percent of gross domestic product, federal revenue for FY2003 was at its lowest level since 1959; and federal income tax receipts for FY2003, at 8.6 percent, were at their lowest level since 1942.

Figure 1: Federal Receipts, 1953-2003
Revenue is at lowest level since 1959



Source: [OMB, 2004 Budget, Historical Tables](#), and [CBO Monthly Budget Review](#).

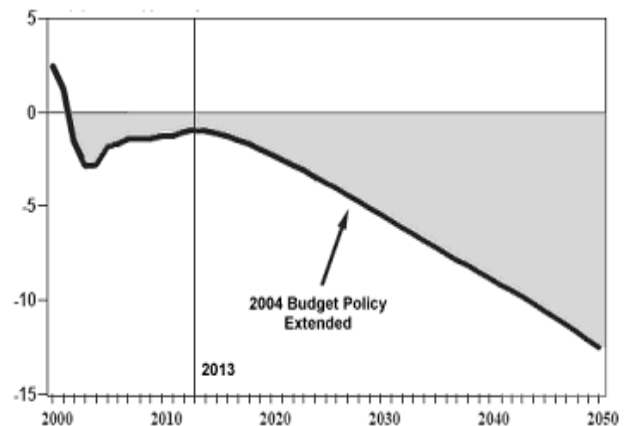
The combined federal and state crisis is already affecting programs and services that many Americans have taken for granted, from higher education to basic social services; from the arts to the environment. It has all but ended serious congressional debate on many critical issues such as the long-term fiscal stability of the Social Security and health care systems. It leaves little hope for the expansion of needed investments in basic research and infrastructure; and it leaves states and localities – often challenged with facing unfunded mandates from new homeland security responsibilities and education initiatives – holding the bag.

Long-term Fiscal Situation

The immediate crisis pales in comparison with the long-term picture. First, political exigencies make it unlikely that Congress will significantly curtail federal spending before the 2004 elections. Second, there will be significant pressure to extend tax legislation, which, if enacted, will reduce revenue even more than currently projected. Third, while low interest rates and tax rebates will help the economy grow and create some jobs in the short-run, current fiscal policy has created a long-term fiscal imbalance. The current period thus represents the “calm before the storm” – the prelude to a deepening and unsustainable deficit, lower national savings, a probable increase in interest rates, and a slowing economy down the road, all in addition to painful cuts in vital government programs and investments.

With the increased demand on Social Security and medical care presaged by the upcoming retirement of baby-boomers, there will be even more pressure to cut spending in other areas. The Bush administration illustrated what amounts to a long-term disaster in its FY 2004 budget. After 2013, when the baby-boom retirement begins to accelerate, the deficit will soar to levels not seen since the height of World War II.

Figure 2: Surplus/Deficit, as a Percent of GDP, 2000-2050
As baby boomers come of age, deficits explode



Source: [OMB, The Budget for Fiscal Year 2004, Analytical Perspectives, p. 43](#).

According to the Bush analysis, by 2050, the deficit would be more than 13% of GDP – which many believe is well beyond sustainable levels. The deficit will soar even higher if Congress passes additional tax cuts, if Congress approves necessary fixes to the Alternative Minimum Tax, if spending grows at current levels, if there are various unexpected expenses, or if the economy doesn't do as well as projected.

The point is not to quibble about the accuracy of the President's analysis; rather, it is to draw attention to the looming fiscal situation and to highlight its implications.

Who will Define the Role of Government?

The reduction in federal revenue is no accident, and reflects conscious policy decisions designed to reduce the size of government. Recently, influential conservative Grover Norquist asserted, "I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub." Conservatives are very clear about the use of tax policy to accomplish this objective – in Norquist's words, "kill the taxes, and you kill the government."

Realizing the important implications of reduced federal revenue, the public interest community has valiantly defended against each new federal tax cut. Throughout the appropriations and authorization process, issue-based groups work intensively to protect spending in particular issue areas. Most are clear and united about what they don't want – no more inequitable tax cuts that reduce needed federal and state revenue and no more cuts in government services and programs, especially those that benefit low-income and vulnerable populations.

There is much less clarity and unity in voicing what we *do* want for the overall budget, and specifically for the tax system. *Nonprofit organizations, progressive voices, and civic leaders need to act now to formulate and communicate a long-term vision of the role of government, so we may effectively compete with the conservative vision.* We need to build upon these ideas to develop and support the tax and budget policies that support that conception. In

addition, we need to begin to implement a long-term, affirmative campaign based on that vision.

Opportunity

The conservative vision of a radically smaller government via tax cuts runs counter to public opinion. There is consistent public support for increased spending on education and health care, as well as for a broad range of programs that create opportunities for everyone, foster healthy families and communities, protect the environment, and build a strong and vibrant economy. While almost no one likes to pay taxes, there is also compelling evidence that the majority of Americans see the connection between taxes and desirable government services, and recognize an obligation to pay taxes. The dissonance between the conservative vision and what most Americans want and expect of their government will become even more pronounced as the inevitable cuts in domestic programs deepen.

Moreover, the public does not support a central conservative justification for tax cuts – that government does very little for ordinary people and wastes tax dollars on the wrong people. A poll by Greenberg Quinlan Rosner Research conducted in October of 2003 found that 75 percent of those polled disagreed with the statement "I don't like paying taxes because the government doesn't do anything for me." Additionally, 69 percent disagreed with a statement that "I don't like paying taxes because government spends too much money on welfare and other handouts."

Furthermore, 84 percent agreed that they "don't mind paying taxes because my taxes contribute to making sure we have public schools, clean streets, public safety and a national defense and a cleaner environment." More generally, 82 percent agreed they "don't mind paying taxes because my taxes are part of my contribution to society as a citizen of the United States."

There is, however, one difficulty with this rosy picture of happy taxpayers – 65 percent agreed with the statement, "I don't like paying taxes because the government is too wasteful and

inefficient.” While the public supports a range of programs, the public also has questions about government’s efficiency. This should come as no surprise since policy officials, media outlets, and conservative commentators overwhelmingly focus on stories about waste, fraud, and abuse in government, rather than on what it does right.

This and other data show that most Americans support the services and programs that government can and ought to provide to its citizens, and that Americans are willing to accept their obligation to pay taxes. Seizing the opportunity, however, requires addressing the perception of government inefficiency.

Public opinion research also consistently shows that the public believes the U.S. tax system should guarantee that everyone – rich and poor – pays their fair share. As conservative tax policy is increasing revealed as benefiting corporations and the wealthy – at the expense of increased tax burdens and less government services for low- and middle-income Americans – the opportunity beckons to offer a competing vision of a fair, equitable, and simplified tax code.

To take advantage of this opportunity, the public interest community must do more than advocate against conservative tax and budget policies. Rather, it is imperative that we begin to formulate and support an affirmative alternative vision – one that demonstrates the variety of ways in which government services and actions have proved efficient and effective. The long-term vision must contain the elements of a fair, efficient, and simple tax plan, in part to counter the broad plans advocated by conservatives.

This will require a long-term effort that includes national, state, and local voices. It will require reaching out to new constituencies. It will require all groups to work beyond specific issue areas and pursue a common long-range vision and strategy.

To summarize:

1. Due to revenue reductions and demographic changes, government services and programs

at the national, state, and local levels will remain under threat.

2. The debate about federal tax and budget policy will continue over at least the next decade and will highlight radically different visions of the future of the United States.
3. Surveys show that most Americans support government services and programs and that Americans are willing to accept their obligation to pay taxes.
4. This presents an opportunity for the public interest community to propose an inclusive positive agenda.

Collectively, we must seize this opportunity immediately to advance a positive vision that puts people first.

Three Key Proactive Elements

In the summer of 2003, OMB Watch drafted a plan of action for tax and budget issues – both defensive and offensive actions –and circulated it to some local, state, and national groups for feedback. We also met with representatives from a number of groups to obtain their point of view about how important it is to move forward with a long-term initiative and what would be involved. Throughout this process, we emphasized that OMB Watch has a strong commitment to being part of an effort to make this happen, but has no interest in “owning” this plan.

Our discussions highlighted different ways people define “taking the offense.” To some, advocacy around immediate legislative proposals, like advocating for an extended child-tax credit or unemployment benefits, qualify as offense. Others spoke about the offense as reacting to bad ideas with better policies. Yet others consider the offense to be a proactive agenda that renews demand on our political system to respond to broad policy and programmatic gaps, and forces others to respond to our proposals. This paper – this call to action

Three Key Proactive Elements

1. Tax Policy

- Issue: Taxpayers want a system built on simplicity, fairness, and efficiency in raising public revenues and encouraging economic growth.
- Moving Forward: Principles and proposals for a fair tax system.

2. Government Services and Investments

- Issue: Public support remains strong for vital government programs and services
- Moving Forward: Blueprint of an investment agenda.

3. Role of Government

- Issue: In talking about what we do want, it is absolutely necessary to specifically address the role of government.
- Moving Forward: A concrete, long-term plan to address the role of government and the negative perceptions.

– is grounded in this final definition of offense. In formulating a broad plan, there will inevitably be overlaps, but we think that a broader long-term proactive agenda will also be helpful in guiding short-term activities to build an overall more effective and cohesive effort around federal tax and budget issues.

There has been nearly unanimous support for developing a long-term plan of action, and, not surprisingly, a great variety of viewpoints about how to proceed. There is acknowledgement that the stakes are very high, and recognition that it is past time for the public interest community to articulate a positive vision. National, state and local groups want to do something about the federal fiscal situation and want to engage in a longer-term initiative to move to the offense.

One major challenge is a lack of cohesive leadership within our sector for this kind of long-term proactive effort. This leadership issue – often characterized as lacking the equivalent of a Grover Norquist or the well-organized, well-funded, multi-level organizational capacity that conservatives have built – seemed to override all other concerns about the difficulties of moving towards a long-term offensive initiative. Other challenges that were mentioned include: limited coordination among national and state

organizations; limited resources, including time and money, among state and local groups to meaningfully engage in a long-term initiative; and the current state of the political system, particularly the role of money in politics. Any long-term proactive agenda will need to address these considerable challenges.

A long-term campaign will also need a concrete vision. It is important to develop a written strategy or plan, or at least specific principles, that can be embraced by a wide variety of advocates, serve as a focal point for activities, and guide us over a longer-term campaign. This long-term effort should broadly inform tactical decisions made about the shorter-term efforts to make those efforts more cohesive and effective. To be effective, we will need to concentrate on messages, communication, and the mobilization of a network of broad constituencies at the national, state and local levels. This paper is not that plan, but rather a call to action to move in that direction.

From our conversation, three main areas of focus were suggested for this long-term campaign: tax policy, government services and investments, and the role of government, (see box on previous page). The scope of each follows.

Tax Policy

We need to advocate for a tax policy built on simplicity, fairness, and efficiency in raising public revenues and encouraging economic growth.

Not only has the tax system become more complex as a result of the Bush tax cuts, it has become less progressive and less fair. For example, there is a continued trend towards reducing or eliminating the taxation of investments and putting more emphasis on taxing wages. On the other hand, there is broad public support for a fair, simple, and graduated tax system. Tax policy underlies nearly all other policy options in our government since nearly all require funding. Tax policy serves another role besides raising revenue – it can guide or encourage certain social objectives, like reducing the gap between the rich and poor or providing incentives for long-run economic growth.

To get there, we need principles and proposals for a fair tax system.

A blueprint of tax principles can serve as a tool for advocating change in state and federal tax policy for years to come. From those broad principles, or even a template for an “ideal” tax system, specific proposals or policies can be developed and advocacy campaigns undertaken around them.

As an example, Mark Schmitt of the Open Society Institute suggests that it is time to get behind a policy that “would constitute a fair tax system that encourages economic growth.” Schmitt provides a beginning list of possible changes, including equal taxation of work and investment, having a simplified tax system, and preserving a system of progressive taxation on wealthy decedents. Other progressive thinkers – Henry Aaron, Bill Gale, and Joel Slemrod among them – have provided a number of suggestions for improving the federal tax code. Reports have suggested that the new Center for American Progress may propose a broader plan as well. However, there have been few effective

efforts to combine these and other ideas, or to rally nonprofits and advocates around specific larger ideas.

Government Services and Investments

We need to reinforce the fact that public support remains strong for important government programs and services.

A fair and effective tax system is the foundation for investing in our children and families, rebuilding our basic infrastructure, protecting our environment, and preserving or expanding other basic investments that will strengthen our society and help our economy. In addition to basic investments, a fair tax system will provide the revenue to address broader quality of life issues – to expand the pie instead of simply cutting the pieces differently. Americans, rich and poor, want safe and livable communities, clean drinking water, places to enjoy nature and recreate, a good education for their children, access to art, music and books – the list could go on and on. There is a continuing disconnection between the priorities expressed by Americans in poll after poll, and policymakers who remain focused on tax cuts.

To get there, we need a blueprint of an investment agenda that goes beyond a wish list from every issue area.

A useful investment agenda cannot be a catalogue of programs that should be supported – a sort of wish list from every issue area. Instead, the objective would be to compile important big picture ideas, based on broadly shared values and goals, into a wide-ranging blueprint. This would clearly link desired tax and revenue objectives to the ability to accomplish priorities that are supported by the public. It can serve as the long-term blueprint for a vision of the future of American. From that broad blueprint, specific state and federal legislative objectives can be developed.

Role of Government

In talking about what we do want, it is absolutely necessary to specifically address the role of government.

The tax and budget debate that is currently being played out in Congress is above all a debate about competing conceptions of the role of government. It has become more and more acceptable to attack government for anything and everything that does not work. There are rare media reports about how government benefits citizens; instead the focus is on isolated examples of waste, fraud, or abuse in government. Even highly effective government programs, such as Head Start, are under attack today. A longer-term effort, such as described in this paper, must also focus on demonstrating the vital role of government and its value in our civil society.

To get there, we need a concrete, long-term plan to counter the negative attacks on government and address the positive role that government can play.

As mentioned above, there is strong public support for many government programs and services and at the same time there is concern about government waste and inefficiency. Conservatives have built on this concern to create an atmosphere where government is no longer trusted. This needs to change. We need to build on examples of the value and importance of federal government to ordinary Americans. This is probably the most difficult and abstract task we face.

A ten-year blueprint for change is not an impossible goal, and would allow the public interest community to advocate for widely beneficial policy changes rather than being only *against*.

Moving Forward

While there seems to be consensus that a long-term campaign should be built around some combination of advocating for a fair tax policy, promoting resources for domestic investments, and affirming the need for a strong, vital government, there was less agreement about how to move forward. Some of the common suggestions we received for moving forward included:

- Improving links between defensive and offensive strategies, particularly at the state and local level – and building from existing structures;
- Increasing targeted advocacy training, including training on substantive tax and budget issues, lobbying, media advocacy, and voter education initiatives;
- Generating additional policy research and improving dissemination, including the impacts of federal and state tax and budget policy on programs and services, as well as ways of demonstrating the need for adequate spending on programs and services;
- Conducting additional public opinion research as well as new types of research that help to frame tax and budget issues in ways that resonate with the public and engage new constituencies; for instance, by using “values-based” language;
- Improving ways of talking about tax and budget issues. Some suggested telling more stories about actual people to show where government plays a critical role in our society, as well as what remains unaddressed;
- Undertaking additional case studies of tax and budget campaigns at the state and federal level to provide lessons that groups can learn from;
- Improving links between tax and budget experts and those who are focused more on other issues and services;

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- Developing specific legislative proposals to implement some of the tax ideas;
 - Undertaking specific grassroots actions to counter pledges of “No New Taxes” taken by candidates for office;
 - Targeting efforts in selected states;
 - Increasing the capacity of leaders in nonprofit organization and among policymakers so that they are more engaged in tax and budget issues; and
 - Linking federal tax and budget issues to state concerns.

Next Steps

To get the ball rolling, OMB Watch will convene a strategy retreat, which will include representatives from a broad range of national, state, and local groups, as well as current and potential funders. This effort will be undertaken through our Social Investment Initiative, which is an outgrowth of the Invest in America coalition.

The purpose of the strategy retreat will be to discuss the elements of a long-term offensive initiative, discuss lessons learned from current tax and budget battles at the state and federal level, begin creating a framework of more specific tax and investment principles and policies, and identify some immediate strategies to begin moving in this longer-term direction.

In preparation, we are seeking the viewpoints of groups from across the country through

conversations around this paper and an Internet survey. The survey will help to determine the extent of interest in a long-term effort around federal tax and budget policy, the challenges and opportunities, existing capacity, and needed tools and resources. The results of the survey will be compiled into a report with recommendations, and will be re-circulated for comments.

The objective is to get input from a wide variety of constituencies. We encourage you to circulate this paper and to provide input on the ideas expressed herein.

Conclusion

Battles over federal fiscal policy and the role of government have just begun. Fiscal realities ensure that the debate over federal tax and budget policy will continue for years to come.

Many conversations in which OMB Watch has participated during the last few months, with advocates and funders alike, suggest a broad convergence of opinion around the need for our community to develop and put into place a long-term strategic effort that is proactive – to define and articulate in a concrete way what we are for, rather than only what we are against.

A long-term blueprint for change is not an impossible goal, and would allow the public interest community to advocate *for* widely beneficial policy changes. We hope that we can move together towards this goal, and ultimately create a positive change in tax and budget policy.

OMB Watch is a nonprofit research and advocacy organization dedicated to promoting government accountability and citizen participation in public policy decisions. This mission centers on four main areas: the federal budget; regulatory policy; public access to government information; and policy participation by nonprofit organizations. For more information, see OMB Watch's web site at <http://www.ombwatch.org>. *Tax and Budget Perspectives* is an ongoing series of papers expressing analyses and views of OMB Watch's Tax and Budget Experts.

OMB Watch
1742 Connecticut Avenue, NW
Washington, DC 20009-1171
(202) 234-8494, <http://www.ombwatch.org>