

The Tax Debate: How the Democrats Play, Too, and Often Win

At campaign time, politicians like to run on what they can promise. Republicans typically emphasize lower taxes, while casting Democrats as eager to further burden hard-working families. But Republicans delude themselves when they think that Democrats can't play the tax-cutting game as well. At the end of the day, both parties are united against both budget and tax reform.

That's what we're seeing as Democrats, who were losing politically on the tax front, switch battlegrounds. First, they champion an extension of the payroll tax cuts that were part of President Obama's economic stimulus plan and berate Republicans who favor extending only the expiring tax provisions left over from the Bush administration. Then, as in the president's State of the Union address, they offer other tax cuts that appear to address a laundry list of other needs.

The game: identify tax breaks, particularly for the middle class—who, not incidentally, vote. Cast these breaks as cuts, and anyone who voices opposition to them as raising taxes on the middle class or favoring sending jobs overseas. Perhaps offer to pay for them only with tax increases on big corporations or a tiny fraction of the richest Americans. The Clinton administration made an art form of this strategy, and some of its architects are re-employing it now for the Obama White House.

Many of the subsidies pushed forward by Clinton for higher education, school construction, and the like—and by Obama for manufacturers, small businesses, and firms employing more people—are effectively new spending programs. While they all add to a crazy-quilt tax code, the Democrats argue that the subsidies favor a more progressive, lower-cost alternative to GOP tax cuts. When Republicans either generally or through a tax pledge imply they favor all existing tax subsidies and rate reductions, they then find it hard to explain why they would pick out and choose to oppose only the Democrats' tax cuts.

Ideally, Republicans would emphasize the virtues of lean government, while Democrats would seek progressive ways of meeting society's needs. The country would then seek a balance between conservative principles of efficiency and liberal principles of fairness.

Today's Republicans, however, advocate for low tax collections regardless of the level of expenditure-like subsidies in the tax code and how much of today's deficits represent taxes on future voters. Thus, their no-new-taxes pledge operates on a strange ledger that takes little account of either burdens left for the young or indirect spending through tax subsidies.

Since the size of government is essentially driven by current and future spending, long-term deficit compromises that would reduce tax breaks, direct spending, and future interest costs—even if they entail some increases in revenues—would lead to smaller government. But the pledge pretends otherwise.

For their part, today's Democrats might prefer to use direct spending to expand health insurance or reduce income disparities. But the president's proposed tax breaks show how Democrats can adapt to—and even win—the tax game, while also leaving future budgets way out of balance.

The "my-tax-cuts-are-better-than-yours" gambit may work politically for a while. When one party promises to give away some new government benefits, the other counters by vowing to be a better Santa for a large portion of voters. But it usually results in worse tax policy and failure to tackle the nation's longer-term budget problems.

Such an environment removes us yet further from the debate we desperately need: how, in a world of very large future deficits, to achieve a government that is lean and responsive at the same time.

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