National Commission on Fiscal Responsibility and Reform

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The United States can be fiscally responsible and meet the urgent necessities of the American people by stopping corporate welfare to concentrated industries, taxing the wealthiest that profited from three decades of tax breaks and reigning in weapons and war spending. Expanding Medicare to cover all Americans will save money and improve health. And, Social Security is essential to most Americans and is a contract between the government and the people that should not be broken.

Solving America's fiscal problems requires reviewing the priorities of government, its spending and the sources of funds. It is an opportunity to re-make government so that it meets the necessities of Americans in a cost-effective way while stopping taxpayer subsidies to concentrated corporate interests and finding new sources of more equitable government funding.

Before considering cuts to Social Security and Medicare, the country's most important social programs that every American will rely on for their health and well being, this Commission should focus on where wealth is concentrated as well as cuts in discretionary spending. To do so means confronting the true sources of U.S. debt: two wars on borrowed money, uncontrolled military spending, hundreds of billions in corporate welfare, tax cuts for the wealthiest and corporations as well as deregulation of banks that led to the financial collapse that destroyed vast wealth and required massive bailouts.

The vast majority of the income gains in the United States over the last three decades have gone to the richest 5% of the population with the greatest gains in the top 0.5%. This funneling of wealth to the top came as a result of policies that were explicitly designed to redistribute income upwards. In fact, during the economic expansion from 2002-2007 the top 1% captured two-thirds of income growth. Now, the top 1% has 70% of the wealth of the nation. To balance the budget, the Commission needs to go where the money is. As a result, it is far more appropriate to tax the richest that have prospered rather than the broad middle class which have suffered.

The funneling of wealth to the top has been due to tax payer subsidies, tax breaks and corporate welfare to concentrated corporate interests and tax breaks for the wealthiest Americans. This is a major source of the national debt. From 2001-2008, tax cuts for the wealthy cost the U.S. Treasury $700 billion, all adding to the national debt. This Commission should be looking to those who have profited from government policies – policies that have been a major source of fiscal problems you are facing – as a source for bringing the federal budget under control.

There are 7,500 households in the United States with annual incomes over $20 million. Over the last two and a half decades, this is the group that has profited from a tax system designed to favor the wealthiest. America's highest earners – the top 400 – have seen their share of income paid in federal income tax plummet from 51.2% in 1955 to 16.6% in 2007, the most recent year with top 400 statistics available. Congress should boost the top tax rate to 50% on annual incomes over $5 million and to 70% on incomes over $10 million. This would generate an additional $105 billion, going a long way toward getting our fiscal house in order.

One hundred years ago, President Theodore Roosevelt urged Congress to address the concentration of wealth by instituting a "graduated inheritance tax." The failure to retain any estate tax during 2010 will cost an estimated $14.8 billion in revenue losses. This Commission should endorse the Responsible Estate Tax Act (S.3533) which was introduced by Sens. Bernard Sanders (I-VT), Sherrod Brown (D-OH), Tom Harkin (D-IA) and Sheldon Whitehouse (D-RI). The legislation would exempt over 99.75% of Americans from paying any estate tax whatsoever. This legislation would exempt the first $3.5 million of wealth in an estate from federal taxation ($7 million for couples) as a result the tax is only paid by multi-millionaires and billionaires, fewer than one in 350 estates. The tax is graduated, i.e., an estate between $3.5 million and $10 million would pay a 45% rate, the same as the 2009 level. The rate on the value of estates above $10 million and below $50 million would be 50%, and the rate on the value of estates above $50 million would be 55%, the top rate in 2000. The bill also imposes a10% surtax on the value of an estate above $500 million ($1 billion for couples). According to Forbes, there are only 403 billionaires in the United States with a collective net worth of $1.3 trillion. As Bill Gates Sr. has written an estate tax "is a means by which wealthy people pay back the society and the commonwealth that has made their wealth possible."

The Commission should look to where the money is and urge a tax on financial speculation. A modest tax on financial transactions could easily raise more than $150 billion a year. A modest .5% tax on stock trades .02% on trades of futures and credit default swaps would have almost no impact on ordinary investors. The United Kingdom raises $40 billion a year by just taxing stock trades. The much larger and wealthier United States would raise much more. Over 200 economists have endorsed the financial transactions tax as a means to raise money and slow short-term financial speculation which is more akin to gambling than investment in the real economy.

This Commission should also be looking at discretionary spending that is bloated or inconsistent with current government objectives.

More than half of the discretionary spending of the federal budget goes to weapons and war. The Commission must look to this budget if it is to restrain government spending. One challenge you face is that the DoD budget, and many of the expenditures on the wars in Iraq and Afghanistan, have been un-auditable. The Commission should recommend reforms that ensure that taxpayers know where weapons and war budgets go. In 2008, the Government Accountability Office found that 95 major weapons systems have exceeded their original budgets by a total of $295 billion, bringing their total cost to $1.6 trillion. Out of the annual $700 billion DoD budget, about $400 billion is devoted to weapons and services provided by private contractors. Making reforms to the weapons procurement system so that cost overruns are no longer acceptable would be a major source of balancing the budget. This is just one area where cuts are possible in the military budget. In addition, the United States should be constantly reviewing the closure of some of the 1,000 military bases and outposts around the world. The wars in Iraq and Afghanistan are projected to cost $2 trillion – all in borrowed money. The war in Afghanistan – where it costs $1 million to keep one solider for a year – is costing $7 billion per month in borrowed dollars. Wars should no longer be fought on debt.

Another area where this Commission should conduct an in-depth review is corporate welfare. This is any action by local, state or federal government that gives a corporation or an entire industry a benefit not offered to others. It can be an outright subsidy, a grant, real estate, a low-interest loan or a government service. It can also be a tax break – a credit, exemption, deferral or deduction, or a tax rate lower than others pay. Corporate welfare is unfair, destroys incentive, perpetuates dependence and distorts the economy in favor of concentrated, near monopolistic, corporations. In 1998, TIME Magazine concluded that Federal Government alone gives $125 billion a year in corporate welfare after an 18 month investigation. No one knows how much is spent on corporate welfare today, estimates range in the hundreds of billions – not counting the bailouts of Wall Street and the auto industry. Corporate welfare funnels money to the top, providing billions of dollars to the already wealthy and concentrating power in the hands of a few. As TIME concluded "One role of government is to help ensure a level playing field for people and businesses. Corporate welfare does just the opposite. It tilts the playing field in favor of the largest or the most politically influential or most aggressive businesses."

Some corporate welfare works against the goals of government. Today, one goal is break American addiction to oil. Yet, while the oil and gas industry is experiencing record profits, the Green Scissors Campaign reports the industry is set to receive at least $33 billion in handouts from taxpayers over the next five years. These companies stand to gain at least $23.2 billion from tax loopholes, $3.8 billion in royalty rollbacks, $1.6 billion in direct subsidies for research and development, and $4.3 billion through accounting gimmicks.

Corporate welfare to the oil and gas industry is one example among many. A detailed review of corporate welfare would greatly explain the deficit spending of the federal government.

Social Security and Medicare have become even more important as a result of the economic collapse. The loss of wealth suffered by older Americans in the economic collapse has left people in their late 40s and older with almost nothing other than Social Security and Medicare. These two very popular and successful programs should not be cut, indeed, they should be expanded.

The discussion of Social Security has been filled with inaccurate information about the stability of the Social Security fund. Cutting Social Security will not reduce the deficit. Social Security has accumulated a massive surplus—$2.5 trillion now, rising to $4.3 trillion by 2023. This vast wealth was collected over many years from workers under the Federal Insurance Contributions Act (FICA) to pay in advance for retirement. The money Americans have paid to Social Security will keep it solvent through 2043, and after that 80% funded. These funds do not belong to the government;

they belong to the people who paid for it. FICA is not a tax but an involuntary retirement savings – a contract that must be respected. Merely raising the cap on income taxed for Social Security will ensure its survival and allow its growth. Indeed, in the years that follow the current baby boom generation Social Security will return to full solvency as the birth rate has dropped from the current 2.7 rate to 2.1 children per couple. Thus, Social Security will be paying benefits to fewer people.

Regarding Medicare, this Commission should recommend that Medicare be improved and expanded to cover all Americans. This will greatly reduce future deficits. Health care is the driving cost of future budget shortfalls. If the per person cost of health care was the same in the United States as in any other wealthy country, rather than seeing deficits the United States would experience surpluses. This Commission should use its platform to urge the removal of the profit-driven health insurance industry from the equation. This will save Americans $400 billion in annual health care expenditures and reduce government deficits. This basic fact is central to understanding the long-term deficit that this Commission is wrestling with.

The goal of fiscal responsibility and meeting the urgent necessities of the American people are not inconsistent. But, to meet those twin goals this Commission needs to look to who has profited from the creation of debt, where discretionary funds are being spent in unnecessarily and counterproductive ways and tax concentrated wealth created by three decades of government policy.

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