

Testimony of the U.S. Public Interest Research Group

Nicole Tichon, Tax and Budget Reform Advocate

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Before the

President's Commission on Fiscal Responsibility and Reform

Erskine Bowles, Chair

Alan Simpson, Chair

Chairman Bowles, Chairman Simpson and distinguished members of the Commission:

Thank you for the opportunity to be a part of this critical conversation. My name is Nicole Tichon and I represent the U.S. Public Interest Research Group, which is a non-profit, non-partisan federation of state public interest advocacy groups that take on powerful interests on behalf of our citizen members.

Our perspective on reducing the debt and deficit is founded on the principle of accountability for tax dollars whether the recipient is a government agency, its contractors or the industries that benefit from taxpayer bailouts.

We've released two reports on how to reduce the deficit through policies that advance the public interest and reduce the deficit— *The First Trillion* back when the Commission commenced its work and *The Next Trillion* released today across the country to coincide with today's hearing.

The reports, which are available on our website at u-s-p-i-r-g.org, focus on five areas for deficit reduction:

- 1. Reducing Wasteful Spending on Contracts and Supplies**
- 2. Making Polluters and Financial Speculators Pay for Damage They Create**
- 3. Ending Wasteful Corporate Subsidies**
- 4. Better Collecting Existing Taxes**
- 5. Reducing Costs to Administer Medicare**

I'll highlight some examples from our recent report which, like the Commission, looks at a debt-reduction horizon of 2015.

Category 1: Reducing Wasteful Spending on Contracts and Supplies

Much of what government does is through private contractors. It makes sense to root out waste within government purchasing and contracts and we have seen a lot of common ground to do so across the political spectrum. We applaud the Administration's recent efforts to snuff out bad contractors and wasteful contracts as well as the efforts of the bipartisan Defense Acquisition Panel to make sure the Pentagon spends taxpayer dollars more carefully and pays for services and programs that provide the best value.

As a former contractor for federal and state government, I can personally attest to the amount of time and money wasted when requirements aren't clear, when rules are not adhered to and when contracts are not closely managed.

In examining purchasing and inventory data at the Defense Logistics Agency, Army, Navy and Air Force, the Government Accountability Office discovered that

the organizations were wasting billions of dollars purchasing items that went unused or were never required - **as much as 50 percent more than required**. Through reforms to their purchasing process and better data about what is required, billions can be saved and the needs of the armed forces can be better met. By following some basic steps, the GAO estimates that **\$185 billion** could be saved by 2015.

Category 2: Making Polluters and Financial Speculators Pay for the Damage They Create

U.S. PIRG believes that when polluters or speculators make a mess for the public, they should be responsible for cleaning it up – and for risky activities the best way to do this is often to create an insurance fund that will be ready when the need arises. **We've seen the result of irresponsible risk taking in the Gulf and we've seen it on Wall Street time and again.**

A big problem on Wall Street is speculative high-volume transactions often by driven by computerized hair-trigger trades seeking relatively small margins. **Just yesterday, trading of Citibank was suspended due to such trading.**

Imposing a very small - less than 1 percent - fee on speculative transactions would discourage such destructive trading while raising revenue and encouraging the longer-term investment America needs.

Support for the speculation tax comes from far and wide, including many global leaders, Nobel Laureates, the former Chief Economist for the IMF, business leaders such as Warren Buffet and a broad coalition of consumer, labor, environmental, human rights and other organizations.

Most importantly, the idea is supported by the U.S. taxpayers. Today's *Wall Street Journal* reports that the idea was discussed by of participants national town hall meetings put together with assistance from a broad spectrum of groups including the American Enterprise Institute, the Concord Coalition and the Chamber of Commerce. A resounding 61 percent of participants supported such a speculation fee.

According to the Center for Economic Policy and Research the financial speculation tax could raise **\$884 billion** by 2015, even on half of the current amount of trading volume.

Category 3: Ending Wasteful Corporate Subsidies

In light of recent events in the Gulf and rising oil prices, it has never been more clear that it is time to end government giveaways to highly profitable oil and gas companies. These **subsidies worsen our deficit and encourage overly risky**

methods of extraction. Ending the subsidies would save \$19 billion by 2015.

Category 4: Better Collecting Existing Taxes

There's been progress on closing a few egregious international tax loopholes but many more measures to collect existing taxes are needed. These should include:

- **Implement a Surtax for Companies Reporting Much Lower Income to the IRS than to Shareholders** - Place a small tax on the dollar gap between the income some companies report to tax authorities and what they tell their shareholders. This policy will both **improve honesty of tax reporting and the quality of information reported** to investors. It could generate **\$15 billion** by 2015.
- **Close the Carried Interest Loophole** - Tax fund managers' income at the same rate as other similarly situated workers, not at a discounted 15 percent. This could raise another **\$15 billion** by 2015.
- **End the Use of Offshore Tax Havens for Tax Avoidance and Evasion:** The government should stop giving tax breaks that encourage companies to keep profits overseas. Companies that are managed and operated in the U.S. should be taxed as domestic companies. The U.S. should require companies and individuals to fully disclose hidden offshore accounts. Eighty-three percent of the largest corporations – **including the big Wall Street banks that were bailed out by taxpayers – make use of tax havens**. The most frequently cited estimates put the revenues gained at \$100 billion per year, **\$500 billion** by 2015.

Category 5: Reduce Costs to Administer Medicare

Given the size, complexity and importance of this program, it is important for the government and its partners to make its processes as efficient and coordinated as possible and to make sure we get the best possible deal for taxpayers. A sample of ways to do this include: ending inflated payments to pharmaceutical companies for prescription drugs, reducing costs through the use of information technology solutions, and reducing geographic disparities in Medicare provider payments. These efficiencies could save **\$160 billion** by 2015.

In closing, U.S. PIRG maintains that the government should continuously strive to be a better steward of taxpayer dollars **regardless of the urgency of our debt situation**. If the government moves forward with an aggressive plan to hold

itself accountable – as well as its partners, contractors and corporations that benefit from taxpayer bailouts – we could reduce the deficit and have a better government.

Thank you.