How the Left Can Win Arguments and Influence People

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One of the problems that progressives face is the perception that everyone on the left wants to raise taxes. There’s a partial truth here: the left certainly does want to shift much of the tax burden from the poor and working classes to the rich. But the overall perception that progressives want to tax and spend more money than conservatives do isn’t necessarily true. In fact, if you look at the ideal budgets proposed by progressives, centrist Democrats like Bill Clinton, moderate Republicans, and the far right, it’s the progressives who have the smallest government in mind.

The truth is that once you consider sharp defense cuts and greatly reduced corporate welfare (which together constitute a large part of the total government budget), the ideal budget proposed by most progressives is smaller than the current one, even
when you add substantial increases in education, medical care, and social programs. The conservative vision of “small” government is small only with respect to its protections for the environment and political rights. When it comes to putting people in prison, giving handouts to big corporations, and inflating the defense budget beyond any possible military necessity, the right is the party of big government.

Why, then, are conservatives perceived as the advocates of small government while liberals are perceived as wasteful spenders? One reason is that conservatives have a powerful influence over the Republican Party, whereas progressives have almost no power over the Democratic Party. The “left-of-center” Clinton Democrats in control support corporate welfare and defense spending, since the beneficiaries of this government largesse provide a major source of campaign contributions for them. The Democratic Party maintains its liberal credentials by supporting somewhat higher social spending than the Republicans do. As a result, the Democrats usually are the party of big government, but there’s no reason that the progressive movement in America should be stuck with the same label.

Nonetheless, the myth of progressives favoring big government persists. In part, the myth is spread by the right, which opposes progressive “big government” regulations that improve working conditions and protect the environment. Health and safety regulations are only a tiny part of the government’s budget (made even smaller with the rise of the far right’s influence on American politics). The “cost” is imposed on businesses that must spend more money when they would prefer to pollute the environment or harm workers without any financial consequences.

The left itself promotes the “tax-and-spend” myth. In an era when “read my lips—no new taxes” became the prevailing
ideology, calling oneself a “tax-and-spend” Democrat—as erstwhile candidate Warren Beatty did in one speech—is a badge of courage. But is a progressive like Beatty really in favor of higher taxes and more government spending? Would his ideal budget—minus all the corporate welfare and wasteful programs—really be larger than today’s government budget? “Tax-and-spend” is simply a misguided label meant to communicate a commitment to social programs but ultimately fails to promote progressive ideas.

What’s so bad about big government? Nothing. Most people would not be opposed to living under a European system with a much larger percentage of its gross domestic product (GDP) devoted to taxes and government spending. In fact, the idea that “big government” is destroying America is simply nonsense. As a proportion of GDP, the U.S. government is now smaller than it was in 1964, before President Lyndon Johnson created his Great Society programs. After hitting a peak during the defense-fueled deficits of the Reagan presidency, the size of the federal government has steadily decreased as a percentage of GDP.

Anyone suggesting a “big government” approach in America is fighting an uphill battle against a long antitax tradition. Since America is wealthy enough to sustain adequate social spending on a relatively small proportion of GDP, progressives don’t need to make a complicated case for bigger government. Rather, what the left must do is change the budget priorities that give ridiculous amounts of funding to corporate interests. Income taxes have remained steady for more than a half century at about 50 percent of federal government revenues. The problem is that the proportion of revenue from excise taxes and corporate taxes has been cut in half during this period while payroll taxes have grown to fill the gap. If corporations paid their fair share, there could be huge tax breaks.
FAVORING THE FLAT TAX

The easiest way to argue against the flat tax is to endorse it. It’s inconceivable, progressives may think, to support Steve Forbes’s dumb plan (and it certainly is a dumb plan unless you’re a millionaire) to cut taxes on rich people like himself. But instead of rejecting the flat tax out of hand, what if progressives demanded a flat tax that served the interests of the people? A progressive flat tax isn’t an oxymoron—it’s a way for the left to take the issue of tax reform away from conservatives.

Two factors determine how progressive an income tax system would be: the rate of taxation at different incomes, and the standard deduction. Progressives are accustomed to seeking a more progressive tax rate, rising as income increases. But there’s no reason that the same result couldn’t be achieved with a flat tax rate and a dramatically higher standard deduction.

The Forbes flat tax is an appalling giveaway to the wealthy that would add to the tax burden on the poor and the middle class. But imagine a progressive flat tax with a standard deduction of $20,000 for each individual (instead of the current $4,300 for singles and $7,200 for couples). After that, all income would be taxed at a rate of about 44 percent. A married couple with children could earn up to $50,000 tax free. The result would be lower taxes for 98 percent of Americans, a 100 percent tax break for the working poor, and a clear-cut, popular issue for progressives to stand on.

At the very least, a proposal to use any budget surplus tax cuts to raise the standard deduction (saving virtually every taxpayer, rich and poor alike, an equal $150 per $1,000 increase) would be a step in the right direction and a highly popular—but completely fair—tax cut. Whenever the right demands a flat tax, they can be asked whether they support the Forbes flat tax for the rich or the fair flat tax that helps everyone.
In all the discussions about lowering taxes, the poor get left out. The centrist Democrats care about giving tax credits to the middle class, since they’re deemed to be the swing voters. The Republicans (and the Democrats) care about giving huge tax breaks to the wealthy, since they’re the donors. And progressives have become so attached to fighting these tax cut proposals for the wealthy that they haven’t proposed a popular alternative: substantially reducing taxes on the poor. Politically, it’s an amazing opportunity: a substantial cut in taxes for all Americans living in poverty would require only a tiny tax increase on less than 1 percent of the richest people. But there is no political organization speaking up for this segment of society on tax issues.

The enormous inequality of wealth in America creates an easy chance for progressives to propose sharp tax cuts for the poor. Because the poor make so little money compared with the rich in America, their total federal income taxes are barely noticeable. The top 50 percent of wage earners pay 95.7 percent of federal income taxes (the top 25 percent pay 81 percent of the income taxes). This means that the government could essentially eliminate federal income taxes on anyone earning below the average income (around $25,000 a year) and lose only 4.3 percent of revenue—an amount that could be taken from the proposed budget surpluses or raised by a tiny increase on the taxes of the wealthiest 1 percent. A plan to eliminate income taxes on anyone earning less than $25,000 a year would be incredibly popular—and yet the dominant political debate is over how much money to give away to the rich.

No one familiar with American politics can underestimate the popularity of tax cuts. That’s why the left has to adopt a new framework, shifting some of its priorities to adopt tax cuts for the poor. Instead of simply opposing conservative tax cuts for the rich, progressives need to offer some of their own—for the poor and the middle class.
One of the Clinton administration’s most brilliant strategic moves was to increase funding for college students via a tax credit rather than increased spending on financial aid. The net effect of the two is roughly identical: helping middle-income families afford college. But the “tax cut” version—despite the added complexity in calculating one’s taxes and the skewed benefit toward wealthier families—is far more politically palatable than the “increased spending” version.

Big corporations have known for a long time that new tax cuts are easier for Congress to pass than new programs are. That’s why most corporate lobbyists in Washington now focus on tax cuts for their special interests rather than on direct spending on them. Now it’s time for the advocates of poor people to do the same.

Progressives have fallen into the trap of believing the Republican attacks on liberal ideas. Because the right wingers accuse us of promoting big government, progressives show how progressive they are by defending big government programs. Changing the terms of the debate would benefit progressives far more: to make Republicans defend their wasteful programs and to push progressive tax cuts.

Instead of trying to create more social programs to help poor people who don’t have enough money, why doesn’t the left support efforts to cut taxes on working people? Sales taxes, property taxes, Social Security taxes, and state and federal income taxes all impose a heavy burden on the working poor.

Currently, we have a crazy tax system in which we heavily tax the working poor for Social Security and impose an income tax on them, but then we give them back some of the money with the earned-income tax credit (EITC). The EITC has drawn the ire of conservatives as a wasteful government program—but it could not be stopped because of the popularity of rewarding the working poor. Spending on the EITC grew from $6 billion in
1994 to $51 billion in 1999. Imagine if we simplified the system: reduced the payroll and income taxes on the working poor (while still giving them credit for Social Security) and eliminated much of the need for an earned-income tax credit.

RAISING THE MINIMUM WAGE

Ever since the first national minimum wage was created in 1938 (at 25 cents an hour), conservatives have attacked the idea of government “interference” in the economy. The minimum wage peaked at $7.50 an hour (in current dollars) in the late 1960s, far above even the current proposals for a future increase. If the minimum wage had grown with the rate of economic productivity or stock prices in America over the past thirty years, it would now be well over $10 an hour.

Conservatives assume that a higher minimum wage would hurt profits and jobs and that a low minimum wage is a cost-free approach. But that’s not true. Government (and that means all of us as taxpayers) pays billions of dollars every year to subsidize this social policy of a low minimum wage. Because the minimum wage is so low, we spend huge amounts for the earned-income tax credit. The government gives up enormous tax revenues that it would receive if workers earned more, not to mention the sales taxes if they had more to spend and future income taxes if they had money to invest.

The government also has to pay for welfare programs, food stamps, and other supplemental income because people can’t earn a living wage. A living minimum wage would provide a huge incentive for people on welfare to get jobs and, in some cases, might actually allow them to afford day-care programs that they must have in order to work. If corporate America paid a living wage of $10 an hour (or $9 an hour if health care is provided), taxpayers wouldn’t need to subsidize business labor practices with all these poverty programs.

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Crime is also reduced by a higher minimum wage because the unskilled workers who have trouble finding a job tend to be the ones drawn to a life of crime, despite the risks. A higher minimum wage makes legitimate jobs more appealing because it’s possible to make a decent living.

“Free marketeers” claim that a higher minimum wage hurts poor people by eliminating jobs. Yet the disasters predicted each time the minimum wage rises never seem to happen. After the minimum wage was raised in the 1990s, the economy registered record growth, and the unemployment rate fell. One reason is that many people currently must work two jobs to stay afloat. A higher minimum wage would allow these workers to survive on one job and spend more time helping their families and communities, thereby freeing up jobs for the unemployed. Because corporate America has effectively crushed union organizing, low-income workers need a living minimum wage to be in a fair bargaining position with employers.

Presto: the left becomes the instrument of smaller government. The earned-income tax credit is flawed in many ways. It requires the nuisance of filling out extra forms; the poor get their money back a year after they earn a salary (and must pay high interest rates on loans to get by until then); the danger of tax fraud is much greater; and the incentive for the underground economy is enhanced (because earnings beyond a minimal level reduce the EITC, whereas a tax cut reduces the incentive for hidden earnings).

In many urban areas, the burgeoning payday loan companies offer the working poor short-term loans at about 500 percent annual interest so that they can pay their bills until the next payday. If progressives could lower taxes on the working poor and the middle class, they would have enough money to start saving, investing, and spending more effectively, instead of
wasting resources just trying to keep their heads above water. For the rich, a small tax cut may mean the difference between buying a slightly more expensive new car or adding a few thousand to their plentiful stock accounts. For the poor, a small tax cut may mean the difference in whether they can afford to go to college or get health insurance. And because the poor actually pay only a small part of the nation’s tax bill anyway, a substantial tax cut for the majority of the working poor would cost far less than the tax cuts proposed by Republicans and Democrats for the richest Americans.

Because progressives are trapped in the habit of supporting welfare programs rather than seeking benevolent social goals with tax cuts, the image of the left as big-spending liberals rather than tax-cutting progressives is confirmed. Not only would a tax cut for the poor improve the image of the left far more than another welfare program or tax credit, but it would also be more difficult for conservatives to oppose.

Instead of simply advocating higher taxes on the rich to pay for more social programs, progressives need to urge an overall package of tax cuts in which most Americans’ taxes are reduced and those of only the top 1 percent are increased. The public’s reaction to such a plan would be overwhelmingly positive. If people voted according to self-interest, progressives would get 99 percent support (although unfortunately, 100 percent of the members of Congress and the top-level media would be part of the small elite against the idea).

Progressives lose when the public debate about taxes is framed as a choice between Democrats (moderate tax cuts for the middle class) and Republicans (large tax cuts for the rich). Until progressives can offer an alternative tax cut plan that benefits the working poor, tax cut proposals for the wealthy will dominate political discussions, and progressives will continue to be tagged with the destructive “tax-and-spend” label.
Capital Gains for the Rich

Of all the inequities and insanity in the American tax code, perhaps none is as incomprehensible to a rational tax system as the special tax break for capital gains given to the wealthiest Americans.

An analysis by Citizens for Tax Justice shows that the capital gains tax cut proposed by conservatives would provide an average windfall of nearly $8,000 per year to the richest 1 percent of families, while the average low-income and middle-class taxpayers would save less than $30 a year. The Center for Budget and Policy Priorities estimates that by 2005, a capital gains tax cut would cost $5 billion a year. Far from cutting capital gains, progressives ought to be pushing for an egalitarian tax code under which income and capital gains are taxed equally.

Many progressives make the mistake of attacking the capital gains subsidy in the tax code solely as a “giveaway to the rich.” Of course, it is precisely that. But progressive ideas are most persuasive when they don’t use the standard rhetoric of attacking the rich. The capital gains subsidy (and the proposal by virtually all Republicans—including Steve Forbes’s flat tax—to increase this tax break) can be effectively countered on libertarian, antigovernment grounds. What business is it of the government to judge the value of the way we earn our money? Why should the government impose lower taxes on a stock investor than on a construction worker? Why should the government subsidize the money made in stock market speculation while requiring higher taxes on money invested in a certificate of deposit?

Why should someone who makes his money by investing stocks benefit from a lower tax rate than does the construction worker who goes out and works hard all day to make a living? The construction worker pays more in income taxes than the speculator—and the far right wants the speculator to pay nothing at all.
The reason that the construction worker pays higher taxes in order to subsidize the stock speculator, we are told, is that paper shufflers are more important to our economy than construction workers are. Yet there’s never been any sound economic theory to prove that $50,000 made on Wall Street is more important to our economy than $50,000 made on Main Street. However, the economists who argue for a lower capital gains tax, and the politicians who embrace it, are all close friends with the people who profit from the idea.

Take the case of George W. Bush. In 1998, he made millions from selling his stake in the Texas Rangers—turning a $640,000 investment into $15.4 million with the help of $130 million in corporate welfare payments from taxpayers for a new stadium. But Bush paid only $3.7 million in taxes (about 20 percent of his income) owing to the low capital gains tax rate. If Bush had earned his income rather than obtaining it through an investment, he would have paid millions more in taxes. Why does selling a baseball team entitle Bush to a special tax break that somebody selling insurance couldn’t receive?

Conservatives argue that capital gains cuts are important to create economic growth. Considering that these same economists argue for any tax cut on the same grounds, there doesn’t seem to be any particular reason to favor a capital gains tax cut over an income tax cut, except that because the richest Americans “earn” most of the capital gains. This kind of tax cut targets the people who give the most money to politicians.

Isn’t it interesting that the advocates of “tax simplification” suddenly want more complicated taxes when it comes in the form of a tax break for the rich? After all, keeping capital gains income separate from other forms of income only complicates people’s taxes—unless, of course, the “simplify” tax debate is just a cover for cutting taxes on the wealthy.

The low tax rate on capital gains also distorts the economy. Instead of investing in safe bonds or CDs (which pay interest
taxed as income) or stable, profitable companies (which provide dividends taxed at the higher income rate), many investors seek high-risk, unprofitable companies that provide no dividends but have the potential to rise in value and create the desirable low-taxated capital gains. The stock market is precarious enough without the government providing handouts to the people taking the biggest risks.

The principle of fairness in taxation demands a reformed tax code that lowers income taxes (especially for the poor) while providing for equality between income and capital gains taxes. By challenging the current tax structure that favors the wealthy and the powerful, progressives could take away one of the most powerful and popular issues manipulated by conservatives. But even more important, the left could use tax policy and tax cuts to help the poor more than any government program could accomplish. Until progressives address tax cuts, they will always find themselves on the losing end of American politics.