Pouring Liberal Wine Into Conservative Bottles (book review)

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Pouring Liberal Wine Into Conservative Bottles
Reviewed by Jonathan Barry Forman

These days many of the best policy analysts find themselves in the middle of the political spectrum, far from the madding crowds of politicians who have staked out the far right and the far left wings of their political parties. Like the legislative leaders of old, the best policy analysts can still reach across the aisle to shake hands and agree on reforms that could make America better.

Go to Congress, and you will see bickering and gridlock.

Go to almost any policy conference, however, and you will see virtual consensus. The honest analysis of almost any domestic policy problem leads to agreements about the nature of the problem and about many possible reforms. At most conferences, if you want to know if someone is a Democrat or Republican, you will probably have to ask: It won’t be obvious from his papers or his presentations.1

Take healthcare, for example. Spending on healthcare has grown from under 6 percent of gross domestic product in 1965 to 16 percent of GDP in 2004 and is expected to reach 19 percent by 2014 and 22 percent by 2025.2 In 2003, for example, national health expenditures totaled $1.679 trillion, or about $5,671 per person.3 Of particular concern, the administrative costs associated with the American healthcare system are “enormous,” with estimates ranging anywhere from $90 billion to $294 billion a year.4 Meanwhile, healthcare coverage levels have been falling for years. For example, 46.6 million Americans (15.9 percent) were without health insurance coverage in 2005.5 In short, America’s healthcare system is broken.

Between the exclusion for employee-provided health insurance premiums, Medicare, Medicaid, and the other tax and spending provisions, the federal government accounts for about 33 percent of all health spending, and state and local governments pick up another 11 percent.6 Could government do a better job spending all that money? Go to any health policy conference, and you will hear a virtual consensus about how we could better target the tax expenditures, expand coverage, and reduce administrative costs.

Go to Congress, and you will get an earful. But you won’t see any meaningful legislation. Members of Congress are so busy collecting campaign contributions and fighting each other with competing sound bites that they no longer listen to each other, let alone do the hard work involved in legislating and oversight. Gone are the years of bipartisan legislating in the national interest, like we saw when former Sen. Jacob K. Javits, R-N.Y., and others shepherded the Employee Retirement Income Security Act of 1974 through Congress. The greatest deliberative body in the world is no longer the U.S. Senate.

The basic strategy of this book is to take a conservative “bottle” — a policy that is consistent with conservative values — and pour liberal “wine” — sufficient funding — into it.7

Am I discouraged? Some days I am, but I am optimistic enough to believe that if policy analysts can develop consensus solutions to domestic policy problems, Congress will enact them . . . eventually. Government policies do tend to get better over time. There will be opportunities for Congress to do the right things, if only policy analysts can spell those things out in terms that work both in theory and in the partisan world where our legislators lurk.

Laurence S. Seidman is also an optimist. His book explains how liberals and conservatives in Congress should be able to reach agreement on several important

1Graphing the views of the policy analysts would yield a normal (bell) curve, while graphing the views of members of Congress would yield a bimodal distribution — like a two-humped bactrian camel (watch out, they’re stubborn and they spit).


domestic policy issues. Seidman is the Chaplin Tyler professor of economics at the University of Delaware, the author of several books, and a frequent contributor to Tax Notes. The basic strategy of his book “is to take a conservative ‘bottle’ — a policy that is consistent with conservative values — and pour liberal ‘wine’ — sufficient funding — into it” (p. 1).

Seidman argues that refundable tax credits would work better than deductions to help households with housing, retirement saving, tuition, and health insurance.

In Chapter 2, for example, Seidman recounts the valuable lessons that we can learn from the creation and expansion of the earned income tax credit. The philosophy behind the EITC is conservative: You must work to obtain it. Moreover, the credit’s conservative originators — including former Sen. Russell Long, D-La., and then-Gov. Ronald Reagan of California — viewed the EITC “as an alternative not only to welfare, but also to raising the minimum wage” (p. 5). Since its adoption in 1975, the EITC has been expanded many times, and it now transfers more than $35 billion a year to working families, compared with just $24 billion a year for traditional cash welfare. In short, the EITC “superbly illustrates” Seidman’s approach for “pouring liberal wine into a conservative bottle” (p. 5).

Chapter 2 also suggests several ways that the EITC could be improved. To support work, Seidman would reduce the maximum phaseout rate of the credit from 21.06 percent to 15.98 percent; to support marriage, he would further increase the benefits for married couples relative to single parents; and to help working families, he would provide an additional benefit to working families with three or more children.

Building on the lessons learned from the EITC, Chapter 3 outlines a strategy for using a limited number of refundable tax credits to advance other economic and social objectives. While recognizing that many tax reformers want to replace virtually all tax expenditures with spending programs, Seidman argues that sometimes a refundable tax credit is the best approach for implementing a government policy. In particular, using income tax returns to reach low-income households is more efficient than having them apply and reapply for benefits. Also, using income tax returns can avoid the stigma of welfare, and confidentiality can be preserved (pp. 24-25).

Seidman argues that refundable tax credits would work better than deductions to help households with housing costs, to help households save for retirement, to help households pay tuition, and to help households obtain health insurance. He also explains how refundable tax credits could be used to mitigate the burden on households that could result from pollution taxes on producers or from the adoption of a VAT.

In Chapter 4, Seidman elaborates on his proposals for refundable tax credits for saving and for education. He would expand the saver’s credit and make it refundable, and he would combine the HOPE and lifetime learning credits into a single refundable tax credit for higher-education tuition. Seidman also favors providing refundable tax credits for elementary and secondary education — certainly a conservative idea, but one that just might work with sufficient liberal financing.

In Chapter 5, Seidman argues that the way to achieve a responsible health insurance system is to: (1) require that each household obtain insurance; (2) replace the tax exclusion with a universal refundable tax credit; and (3) provide fallback insurance. In that approach, Seidman joins a virtual chorus of policy analysts, both liberal and conservative, who have come to believe that we should have an individual mandate and that we should curtail the unlimited and unfocused exclusion for employee-provided health insurance.8 We are just waiting for Congress to wake up and smell the coffee.

Pertinent here, Chapter 10 offers four major reforms of the Medicare system: (1) income-related patient cost-sharing; (2) earmarked financing; (3) collective pre-funding; and (4) equitable cost-effective rationing. The earmarked financing could come from additional payroll taxes, Medicare premiums, or general revenue — or from a VAT.

Seidman suggests that an automatic temporary payroll tax cut could help the country avoid recessions.

Chapter 6 discusses Social Security reform. Seidman argues that there is no current crisis in Social Security, but there will be a serious problem four decades from now. If nothing is done before 2042, benefits will have to be cut by 27 percent or revenue will have to be raised dramatically. Seidman offers a proposed bipartisan solution that would strengthen the funding of Social Security now. He would collect Old-Age and Survivors Insurance payroll tax on wages and earnings above the earnings cap ($94,200 in 2006), gradually reduce the Social Security benefit-replacement rate for high earners, and gradually increase the retirement age. He also offers modest support for small individual retirement savings accounts on top of the reformed Social Security system.

Over time, Seidman’s Social Security reform proposals would eliminate the Social Security system’s $4.6 trillion unfunded liability,9 and his proposals probably could get broad bipartisan support if members of Congress ever

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9Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 2006 Annual Report (Footnote continued on next page.)
Seidman suggests that the country adopt a progressive consumption surtax on households with incomes exceeding $500,000.

To be sure, it makes sense to redistribute economic resources from rich to poor — from those with a greater ability to pay tax to those with a lesser ability to pay tax. But if redistribution is called for, the payroll tax is a poor choice. Wages taxed for Social Security purposes constitute just 39 percent of the nation’s GDP. That means that 61 percent of GDP is not taxed to help pay for Social Security, including: earned income above the earnings cap; nontaxable fringe benefits and other tax-exempt compensation; the wages of state, local, and other workers that are not covered by Social Security; and investment income. My preference would be to impose the costs of redistribution on rich investors, rather than high earners. In fact, I would go even further and slash payroll tax rates across the board. Let’s raise taxes on trust fund kids and lower taxes on workers.

In Chapter 7, Seidman honors that once conservative virtue of fiscal discipline and suggests a new automatic stabilizer to help the federal government avoid recessions without busting the budget. He explains the dangers of recessions and of high government debt, and he explains how Federal Reserve, tax, and spending policies address those problems. Seidman suggests that an automatic temporary payroll tax cut could help the country avoid recessions.

In Chapter 8, Seidman suggests that we adopt a progressive consumption surtax on households with incomes exceeding $500,000. The new tax would raise revenue from wealthy households while increasing their incentive to save. Think of it as a tax on conspicuous consumption. Paris Hilton and Donald Trump: beware. Under Seidman’s proposal, wealthy households would pay a 25 percent surtax on household consumption in excess of $500,000 a year. Seidman’s sample of a wealthy taxpayer’s Form 1040 proposed surtax schedule is simply delightful (p. 95). Chapter 9 recommends that the United States adopt a progressive VAT (PVAT). With the retirement of the baby boomers looming on the horizon (and their greater longevity), the federal government will have to raise revenue. The government is simply not going to cut grandma’s Social Security benefits, nor will it cut the benefits that it promised the politically charged baby-boom generation. Seidman explains how VATs work and how refundable tax credits can reduce a VAT’s regressivity. Seidman contrasts his PVAT approach with other VAT proposals, including Michael Graetz’s call for a VAT as a replacement for the income tax for nonaffluent households. The bottom line is that the federal government will have to raise at least $4 trillion a year by 2016, and most of that is going to come from high-income individuals and their companies. The key is to have a tax system with the right incentives, so why not tax those who spend more heavily than those who save?

In Chapter 11, Seidman expands on his proposal for environmental taxes on polluters, offset by refundable “green” tax credits for consumers. Americans would get a cleaner environment, and polluters would bear the true costs of the damage they cause. Here again, most policy analysts favor environmental taxes on polluters, but Congress hates to use the “tax” word, and many members would rather not offend their biggest financial supporters.

All in all, Seidman thinks clearly and writes well. His book avoids economic jargon and mathematical gibberish. It’s a quick and pleasurable read, and I suspect that you, too, will agree with most of Seidman’s policy prescriptions. The book’s biggest weakness is the one that plagues most policy analyses (including mine): It’s short on ideas about how to get policymakers to adopt the best policy prescriptions.

Like most policy analysts, most of the American people come down in the middle of the political spectrum on the critical domestic issues that face the nation. We are tired of bickering and gridlock, and we want our Congress to solve our domestic policy problems. We have to start playing the middle against both ends, and a good place to start would be to demand that our policymakers start pouring liberal wine into conservative bottles.

Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table IV.B6 (2006).


11The Congressional Budget Office expects that the 2006 federal budget deficit will total $260 billion and that the public debt will reach $4.851 trillion. CBO, The Budget and Economic Outlook: An Update, summary table 1 (Aug. 2006).

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13CBO, summary table 1.