

# Center for American Progress



**To:** Progressive Community and Interested Parties

**From:** John Podesta, Cassandra Butts and John Halpin

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**Subject:** Progressive Message on the President's Budget

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The president's budget submission presents progressives with an important opportunity to expose the failures of the president's broader economic program and how these failures have put additional pressures on an already burdened middle class.

Four years of wrong choices by the administration have left the country in perilous fiscal shape. The administration continues to try to paper over the mounting evidence that it has been an irresponsible steward of our economy. But this budget exposes some fundamental truths about the real and detrimental impact its policies have had on the middle class.

For example, the budget shows the actual cost of the Medicare prescription drug bill—which the administration originally billed as a \$400 billion program for seniors—has turned out to be a \$1 trillion giveaway to the pharmaceutical and insurance industries. After squandering the entire surplus on trillions of dollars of tax cuts for the wealthy, the president wants to put us further in the red by paying another trillion dollars to make many of those tax cuts permanent, and wants to add billions more for new cuts. The effort in Iraq, which the administration originally said would pay for itself, is costing us \$300 billion and counting. Furthermore, the president's budget fails to address the mounting pressures on the middle class, and fails to invest in the American public.

The tax cuts, giveaways to industry, and deficit spending all point to one truth: this administration's policies are geared to help the wealthiest and are choking off the middle class's ability to get ahead.

The administration's poor economic and policy choices have a real and tangible impact on middle-class families' lives. They lead to higher interest rates that will make it harder for families to buy a home, get out of debt, and—for too many—fend off bankruptcies or foreclosures. Cuts in education funding make it more difficult for middle-class students to afford college and find a well-paying job. The prescription drug bill helps industry at the cost of seniors, while health care costs continue to skyrocket. All of this is happening while median household incomes and wages are stagnating.

The Center for American Progress has been working to develop clear, concise messages to defeat conservative policies and to promote a progressive alternative focused on increasing economic opportunity, rewarding work, and building a solid middle class.

We certainly hold no monopoly on the truth on these issues, but we wanted to share some of the ideas and approaches that have emerged thus far along with some detailed points from the actual budget.

We hope to continue our work on this front and would welcome your input and suggestions going forward.

Based on this work, we suggest four key messages to help define the contrasts with the president and Congress on policy priorities and then provide some core principles to help define a progressive alternative.

- 1) **“Wrong Choices. Wrong Priorities.”** This is the core of the criticism of the conservative economic agenda. Americans expect their leaders to make the right decisions and push the right priorities. President Bush and a conservative-led Congress have failed to make the right decisions and now Americans will have to pay the price.
- 2) **“Cutting investment in what keeps America strong.”** The White House is seeking to make the most of its incompetence and mismanagement by forcing massive cuts and harsh caps on discretionary spending and entitlements. Progressives must make the most of these efforts by highlighting the severe budget implications for ordinary Americans.
- 3) **“We now see WHO and WHAT conservatives really value.”** The absolute surrender of conservative politicians to the needs and desires of corporations and the wealthy presents important openings for progressives to stress the lack of moral vision and wrong values that drive conservative tax and budget policies.
- 4) **“The consequences for America are dire.”** Progressives must highlight how conservative stewardship is undermining America’s economic strength. Fiscal mismanagement affects everyone. We must raise the stakes for Americans and show them the very real consequences of the wrong choices and wrong priorities of the president and Congress.

### **The Problem with the Conservative Economic Agenda**

**“Wrong Choices. Wrong Priorities.”** This is the core of the criticism of the conservative economic agenda. Americans expect their leaders to make the right decisions and push the right priorities. President Bush and a conservative-led Congress have failed to make the right decisions and now Americans will have to pay the price.

Here is a suggested message to highlight the damage done by conservative economic policies:

*“President Bush and Congress squandered historic budget surpluses that could have saved Social Security. They have spent over \$200 billion on a war in Iraq that is plagued by mismanagement and lack of planning. They’ve racked up huge trade deficits and mortgaged our children’s future to foreign banks and governments.*

*Conservative priorities have made the struggle of the middle class even more of a challenge: jobs are going overseas; quality health care is increasingly out of reach; educational opportunities are down; and the tax system is rigged not to help them, but big corporations and the top 1 percent of wage earners instead.*

*And what does the president want to do?*

*He wants to make it worse. More tax cuts for the wealthy. A \$2 trillion plan to privatize Social Security. More deficits. More foreign borrowing.*

*Americans know these are the wrong choices and the wrong priorities. We need leaders who will make the right choices and push the right priorities to keep America strong.*

*Under progressive stewardship of the budget, the economy was strong, the middle class was better off and America’s budgets were balanced. There are better choices to be made.”*

Specific budget details to highlight these points include:

- *Deficits.* In 2000, the federal government was running a surplus of 2.4 percent of GDP, or \$236 billion. In just a few short years, deficits have returned, and for 2005 deficits are estimated to be at least 3.5 percent of GDP, or about \$427 billion, according to the president’s budget. This historic swing in the budgetary outlook represents fiscal mismanagement on a grand scale.
- *Unmentioned debt holes.* Rather than address the deficit seriously, the president has taken tax cuts off the table and refused to include the trillions in new debt that will be required to pay for his Social Security privatization scheme and the ongoing military actions in Iraq and Afghanistan.
- *Tax cuts vs. spending.* As NPR recently reported, President Bush’s budget cuts make up only 6 percent of the federal budget deficit, while his tax cuts make up 50 percent. Taking half of the deficit problem off the table will only make matters worse.

**“Cutting investment in what keeps America strong.”** The White House is seeking to make the most of its incompetence and mismanagement by forcing massive cuts and harsh caps on discretionary spending and entitlements. Progressives must make the most of these efforts by highlighting the severe budget implications for ordinary Americans.

The health of our economy, both now and in the distant future, relies upon us making the right choices in our decisions about how to collectively invest in our future.

A growing, modern economy relies on public investments in a wide range of services. We all rely on public support for our nation's infrastructure—both physical and intellectual. Our roads carry goods across the country, and our schools help build our human capital. We rely on supports for basic scientific research and for enforcement of regulations designed to protect our natural resources.

If these investments are cut, as the president proposes, our economy will suffer and we will become weaker as a nation.

*“Relying on budget cuts to finance an irresponsible tax cut and a mismanaged war shortchanges investment in what helps America stay strong – a vibrant and thriving middle class.*

*Your community; your safety; your schools; your health care will be sacrificed to pay for President Bush's wrong choices. It's our veterans, seniors, kids, and the poor who will have to suffer for the president's wrong priorities.*

*Conservative budgets do not reflect the values most Americans would want to see from their government – promoting the interests of the few over investments in the future and opportunity for the many is not the right choice.*

*The degree to which America is fulfilling its promises as a country is measured by the health, safety, security and opportunities for the middle class. By that measure, President Bush's economic agenda has failed to invest in critical ways to keep our country strong.”*

Major investment cuts include:

- *Medicaid.* The president's budget would cut Medicaid by up to \$60 billion over ten years, which would shift enormous costs onto the states. According to Families USA, in the fifth year of the proposal alone the cuts are equivalent to providing health coverage for over 345,000 seniors or 1.8 million children.
- *Education.* The budget reduces the discretionary spending authority for the Department of Education by 1 percent. The president also proposed eliminating federal funding for 48 education programs. Although the budget enhanced Pell Grants, it also simultaneously cut other college financial aid programs, making college less affordable for low and moderate-income students.
- *States and localities.* Under the president's budget, grants to state and local governments for programs other than Medicaid would decline 4.5 percent from last year (after adjusting for inflation). According to the Center on Budget and Policy Priorities, grants for these programs would be lower in 2006 as a percentage of the economy than they were in 2001.
- *Environment.* The budget cut total funding for natural resources and the environment by 11 percent. It cut the EPA budget by 6 percent, cut clean water funding by \$700 million, and included a backdoor provision for drilling in the Arctic National Wildlife Refuge.

**“We now see WHO and WHAT conservatives really value.”** The absolute surrender of conservative politicians to the needs and desires of corporations and the wealthy presents important openings for progressives to stress the lack of moral vision and wrong values that drive conservative tax and budget policies.

*“President Bush claimed to be a ‘compassionate conservative.’ He said he wanted to reward those who worked hard and did their part for the country.*

*Now we see what he really values: Wealth over work. Corporations and the wealthy over the middle class.*

*At a time when the president is asking American soldiers and middle-class taxpayers to sacrifice for the country, he is telling corporations and the wealthy that they owe nothing and have no obligation to support the national interest. He’s giving them tax breaks for doing nothing.*

*We now know who and what the president truly values. Unfortunately, it’s not what Americans signed up for.”*

The president’s tax policies highlight misplaced conservative values:

- *Permanent extension of tax cuts.* The president’s tax policy can best be summed up by the phrase “more of the same.” Most of the president’s tax policies from the enactment of the 2001 through 2004 tax laws are set to expire in the near future, with most set to expire in 2010.
- *Benefits go to the top.* The policies that have yet to be extended overwhelmingly benefit those who are very wealthy. The Tax Policy Center estimates that extending the provisions of the 2001-2004 tax changes would yield those making more than \$1 million per year a tax cut of over \$150,000, while yielding middle-income taxpayers significantly less. These tax changes will cost the federal government hundreds of billion of dollars in lost revenue and the benefits will flow primarily to those who need the cuts the least.
- *Wealth over work.* The president’s proposals continue to give preferential treatment for income generated from capital at the expense of work. Extending tax reductions for capital gains and dividends would cost \$162 billion over 10 years (not including additional interest costs). Eliminating the estate tax would cost \$256 billion over 10 years (not including additional interest costs).

**“The consequences for America are dire.”** Progressives must highlight how conservative stewardship is undermining America’s economic strength. Fiscal mismanagement affects everyone. We must raise the stakes for Americans and show them the very real consequences of the wrong choices and wrong priorities of the president and Congress.

*“The severe mismanagement of our economy cannot continue without serious repercussions.*

*In the short term, skyrocketing deficits and fiscal irresponsibility will affect everything from education and health care to the environment and traffic on our roads.*

*In the long term, the administration's mismanagement threatens to turn America into a 'debtor nation' with diminished global power. We are mortgaging our country to foreigners and losing control of our own economic security.*

*All for what? To pay for the wrong choices and the wrong priorities. Tax cuts for the few. The privatization of Social Security. A mismanaged war in Iraq.*

*The consequences for America are dire. They must be addressed now before the president and Congress further erode America's long-term economic strength."*

Long-term challenges from this economic program include:

- *Deficits.* Deficits are a concern to many because of the negative impact large and persistent deficits might have on the economy in the long run. Deficits can lead to lower national savings and thus lower levels of output in the future. With the personal saving rate under 2 percent, it is even more troubling that the federal government is running up massive amounts of debt. In addition, with a large share of federal debt in the hands of foreign governments, large deficits raise potential concerns in the international finance and trade arena.

Despite claims that we are “on track” to cut the deficit in half, the deficit has only gotten worse over the past several years. Deficits have only moved on one track during this administration's watch — and it's not a good one.

- *Revenue shortfalls.* The last four years have seen a sharp reduction in the federal government's ability to raise adequate revenue. At under 17 percent of GDP, federal revenue is at lower than any point in the '60s, '70s, '80s, or '90s. Total spending is not “out-of-control,” as many conservatives contend. The most recent increase has been primarily due to increased military and national security spending. The result of the imbalance between outlays and revenues has resulted in a massive deficit.

In short, we are on an unsustainable path. Current policy will eventually have to be altered to correct for the imbalance between outlays and revenues, and choices must be made about how best to change course. Unfortunately, the president's budget continues the trend of additional tax reductions that benefit the wealthy, while placing an unfair share of the deficit reduction on the middle class.

- *Intergenerational responsibility.* Perhaps the most important concern with the deficit is that we are leaving a massive amount of debt to future generations, and not responsibly addressing longer-term imbalances in the system. For example, the revenue lost from the 2001-2003 tax cuts is three times the amount that would have been needed to make the Social Security system solvent for the next 75 years.

## **A Progressive Framework on the Economy**

As we make the case against conservative leadership on the economy, progressives have a real chance to show Americans our principles for moving the country forward. Americans need to hear what we believe as much as they hear about the programs and specific policies we advocate.

While no means exhaustive, we identified three primary components of a progressive alternative on the economy:

1. *Bringing together all Americans.* First, and foremost, progressives need to stress our commitment to providing economic opportunity and social mobility for everyone – rich, poor, and middle class alike. America is stronger when a secure and growing middle class is recognized as essential to the economic security of our nation; when economic policies are fair; and when public policies like our budget are driven by the values of fairness, compassion, and respect for others.
2. *Building and investing in America's future.* Working together, we must recommit ourselves and our resources to building and investing in people, research, technology, training, and workplace environments that can keep the American economy strong. We should not sit by and watch as the rest of the world makes the necessary public investments to remain competitive in the global economy. Our citizens deserve and need this investment and our economy demands it.
3. *Rewarding work.* The heart of America has always been its middle class. America should reward individual initiative, ingenuity and hard work and provide people with the economic and social opportunities to make the most of their talents and dreams. We must return to policies that spread the tax burden fairly and require those with sufficient means to pay their fair share. We should pursue budgets that invest in people and promote opportunities to get ahead. Rewarding work is critical to maintaining a fair and equitable society and a strong economy.