

NEW YORK TIMES – NOVEMBER 15<sup>TH</sup> 2004

OP-ED CONTRIBUTOR

## Turning the Tax Tables to Help the Poor

*By Dalton Conley*

**N**ow that the Republicans have solidified their control over the presidency and both houses of Congress, progressives might assume that the idea of helping the poor is off the table. But it doesn't have to be this way. If Democrats are crafty enough, they can sneak some progressive policy into the Republican agenda by focusing on specific tax relief, military benefits and President Bush's "ownership society" initiative.

The poor have been off the public agenda for the last two election cycles. This is in part because the left essentially ceded the debate on poverty in 1996, when welfare reform was enacted. Welfare presented Democrats with the chance to say that these "working families" deserved more. But aside from a call to raise the minimum wage, there has been little effort to renew the discussion about helping the bottom one-third of American households.

This is understandable in some ways. After all, how exactly does one prevent the outsourcing of good jobs for low-skilled workers? And how does one put more money into the hands of the poor when welfare is dead?

To add to the challenge, any progressive agenda today would have to be revenue-neutral, in our age of budget deficits. And more important, it would have to be sneaked through a government controlled by a party whose base is the top 20 percent of American households, not the bottom one-fifth.

Harold Wilensky, the political scientist, once lamented that the American left had not learned the lesson of Europe: allow taxation to be more regressive to collect enough money to finance the programs that liberals hold dear. European governments collect an enormous amount of revenue through the value-added tax (sales tax); their effective tax rates on lower-income workers are much higher than America's; and they do not rely very much on property taxes (which are the most progressive of all). In return for a more regressive tax structure, Europeans receive a litany of social services that are politically unthinkable in this country.

Another lesson, however, is that there is nothing particularly American about the paradox of progressive taxation - that folks resist progressive tax structures. The Republicans seem to have learned this. In fact, some pundits have even argued that the Republicans manage to stoke the populist anti-tax fire to reduce top marginal tax rates by raising them on lower income Americans. (Ronald Reagan's payroll tax increase provides the classic example.)

In facing this reality, Democrats can essentially choose from two responses. The first is the European option, for lack of a better name: agree to a flat tax in return for more spending on health care, child care and other services.

The other option would be to hijack the Republicans' fervor for tax cuts, the military and the ownership of private property. Let's start with tax cuts. From an accounting standpoint, there is no

difference between a direct transfer to the poor and a refundable tax credit. In political terms, one is called welfare (a sure loser) and the other tax relief (an almost certain winner).

For example, the Democrats should advocate making the child tax credit refundable. While it has been expanded under Mr. Bush to \$1,000 a child from \$600, the credit does not fully benefit poor families who owe fewer taxes than the full credit amount. Making it refundable changes it into a program that is no different than a negative income tax - what McGovernites were proposing back in 1972, while calling it tax relief. Or, if we do end up with a flat tax, why not play a game of political chicken with Republicans by pushing the "no-tax" income exemption as high as possible?

The same goes with the payroll tax. Why not cut the payroll tax? The Social Security payroll tax is the biggest tax burden faced by poor Americans; cutting it would put more money in their pockets. Such a move would also stimulate hiring, since employers shoulder half the burden of the tax. This plan could be kept revenue-neutral by merely raising the amount of wages subject to the tax - now capped at \$87,900.

The worship of all things military can also be co-opted for progressive ends. The military is now the de facto welfare state. The armed forces and the Department of Veterans Affairs are the two largest health care providers in the United States. The military is also a major bankroller of higher education through the G.I. Bill. And because of America's all-volunteer force, it is the nation's poor that disproportionately serve. By proposing major increases in benefits for the families of active personnel, reservists and veterans, Democrats can use that holiest of holy grails on the right - "our troops" - to help increase opportunities in American society.

Finally, Democrats can turn the right's worship of wealth to better ends by promoting asset ownership. While Mr. Bush is poised to campaign for an "ownership society," several proposals have been stymied in Congress to provide universal savings accounts. These bills would provide every American, as a matter of birthright, with a trust fund of a few thousand dollars. Meanwhile, individual development accounts - a little-known experiment that is part of welfare reform - have been providing matching funds for poor people's savings in selected areas of the country. Both these programs put wealth into the hands of the poor.

The United States is a country where - depending on how the question is worded - 90 percent of the population defines itself as middle class (and the top 20 percent of earners think they are among the top 2 percent). So if the left wants to achieve economically progressive ends, it must pursue a strategy William Julius Wilson has called "targeting through universalism" - namely, generating political support for programs by making them widespread (think Social Security). Put another way, don't begrudge the middle class family (or even the upper class one) a tax break; grin and bear it so that the poor can have their cake too.

*Dalton Conley, director of the Center for Advanced Social Science Research at New York University, is the author, most recently, of "The Pecking Order: Which Siblings Succeed and Why?"*