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Purple Nation

July 7, 2010

A Debt-Free America? Yes — it's Possible By Lanny J. Davis

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We all know, liberals and conservatives, that the growth of the U.S. national debt is, to use a favorite word of our time, unsustainable.

Americans owe, as of July 2010, more than \$13 trillion to our creditors — mostly foreigners who have loaned us this money over the years. This is 90 percent of the nation's gross domestic product. By next year we could be above 100 percent. We are paying more than \$300 billion in interest on this debt, mostly to foreign lenders.

Meanwhile, our annual deficit, currently running above \$1.6 trillion, continues to add to the national debt.

We all know there is only one answer to paying down the debt and balancing the budget: cutting spending and raising taxes. Both are necessary. Getting leaders of both parties to be honest about that and to have the courage to do something about it is the great challenge faced by the Bipartisan National Commission on Fiscal Responsibility and Reform — headed by Erskine Bowles, former Clinton White House chief of staff and currently president of the University of North Carolina — and Alan Simpson, former Republican senator from Wyoming.

One idea for raising taxes to pay down the debt is the bill introduced this February by Rep. Chaka Fattah (D-Pa.). His "Debt Free America Act" (H.R. 4646) would impose a 1 percent "transaction tax" on every financial transaction — whether paid by cash, credit card or any form of financial transfer, the only exception being transactions involving the purchase or sale of stock. Theoretically, everyone would pay one cent on the dollar for every such transaction in America every day — whether \$3 million on a \$300 million business acquisition, \$300 on the purchase of a \$30,000 car, or \$5 on a \$500 ATM withdrawal.

To reduce the impact of such a flat tax on the poor, Fattah's bill provides for a 1 percent tax credit for couples earning \$250,000 or less (\$125,000 or less for individuals) and discretion by the Treasury Department to exempt certain transactions on which lower-income people disproportionately rely. Another idea would be to amend his bill to exempt all transactions below \$500.

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Using 2008 numbers as an example: There was \$755 trillion in total transactions that year. If you deduct the exempted \$312 billion in stock transactions, that leaves \$443 trillion in new revenues, minus the cost of the tax credit and other possible measures to soften the impact on the poor. This means that with Fattah's transaction tax in place, there is a real chance for eliminating the national debt within the next 10 years. In the long term, the transaction tax could replace the need to rely entirely on the income tax, which too often favors wealthier taxpayers who can game the system with fancy shelters and expensive tax lawyers and accountants.

To prevent future Congresses from raiding the proceeds from this "dedicated" debt reduction transaction tax, Congress could establish a separate trust fund, controlled by trustees, not the Treasury Department, who are by law instructed to transfer all proceeds from the transaction tax only to pay down the national debt (and possibly reduce the deficit) and for no other purpose. Congress could also require that only by a two-thirds vote of both houses could such trustee instructions be changed and the proceeds used for other purposes.

Of course, Congress can try to change the dedicated purpose or the two-thirds requirement for changes in the future, so there are no absolute guarantees. But there might be a national political movement — supported by resolutions in both houses of Congress — to ask all candidates running for office to promise not to change that two-thirds requirement until the national debt has been repaid.

Are you confused? An idea that would raise taxes, spread the pain, pay down the national debt and require pledges from politicians to protect the dedicated revenues? Is this a liberal idea or a conservative idea? Red-state or blue-state?

I think it's both — it's truly a purple idea. There may be other ideas — but this one strikes me as better than a "Value Added Tax," or VAT, which is too complicated, or a national sales tax, which only affects consumers at the retail level. Fattah's "transaction tax" concept is at least universal — although there needs to be some relief on its impact on the less well-off.

In any event, I don't believe any new tax proposal can pass unless, at the same time, liberals are ready to cut entitlement programs and conservatives are ready to close corporate tax loopholes.

But of one thing I am certain:

We are not going to dig ourselves out of this deep hole of debt that will burden our children and grandchildren and beyond unless all of us — Democrats and Republicans, liberals and conservatives — are forced to hold hands and jump into the pool together.

Good luck, Mr. Bowles and Sen. Simpson. We will certainly need your help — especially to give us the push into the pool.

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This piece appears today, July 7, 2010, in Mr. Davis's regular weekly column in The Hill "Purple Nation".

Davis, a Washington D.C. attorney at the law/media/legislative strategies firm of Lanny J. Davis & Associates, served as Special Counsel to President Bill Clinton in 1996-98 and was a member of President Bush's Privacy and Civil Liberties Oversight Board in 2006-07. He is the author of Scandal: How 'Gotcha' Politics Is Destroying America.

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