

# AMERICA IS NOT BROKE

How to Pay for the Crisis While Making the Country More Equitable, Green, and Secure



**Tax Pollution**



**Cut The Military**



**Tax Wall St. and the Wealthy**



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**\$824 Billion**  
in Potential Revenue

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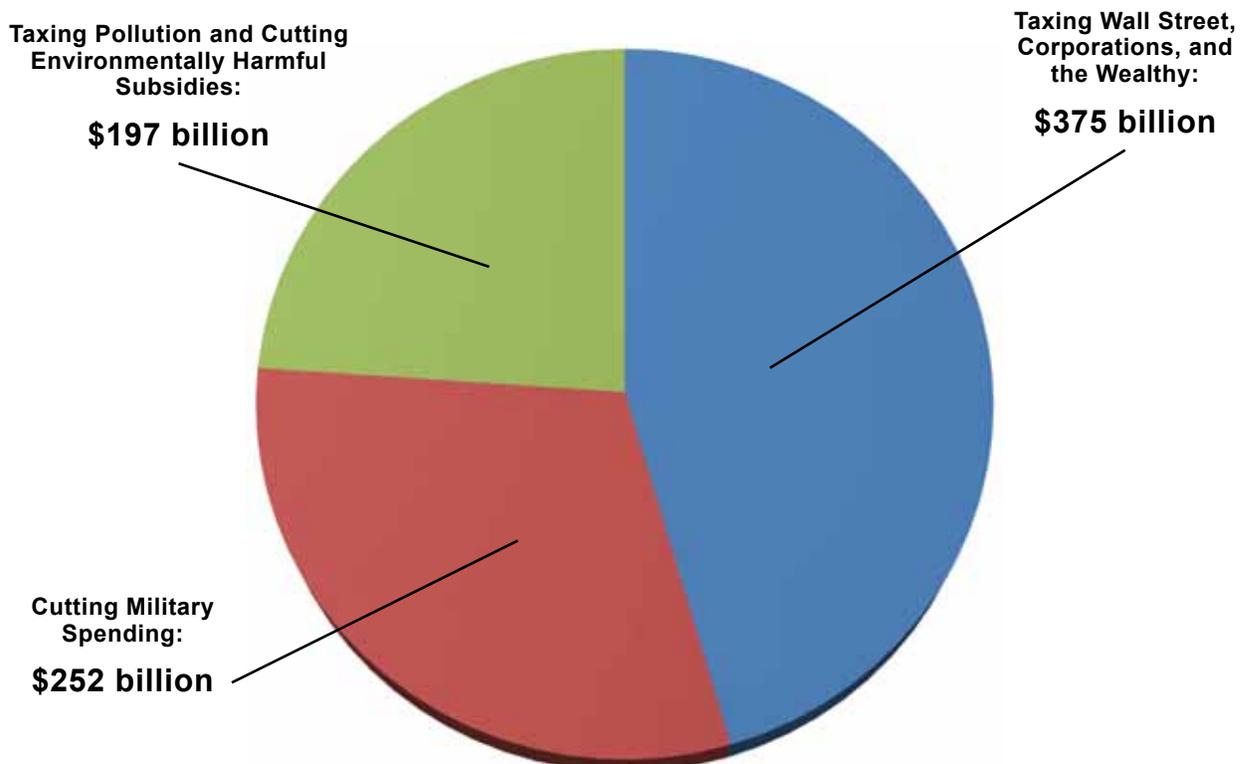
# I. Introduction and Summary

A misplaced obsession with our national debt and austerity has overtaken the national debate on the economy, with a resounding call to slash government spending to balance the budget. Some lawmakers are asserting that the country is broke, that we must tighten our belts, and that we lack the resources to pay for teachers, firefighters, and other vital public servants. They argue that we can't afford the government programs that help people in need, and claim we don't have the funds for urgently needed job-creating investments.

A congressional "supercommittee" has tried to identify \$1.2 trillion in new cuts over the next decade that could have devastating consequences for our communities and our nation. There are many excellent proposals that should be "on the table" for debate.

This report challenges the premise that America is broke. In fact, we argue that the current fiscal challenge poses an opportunity to harness our country's ample but misdirected resources in ways that will make us stronger.

Potential revenues that would make the nation more equitable, green, and secure  
Total: \$824 billion



We did not attempt to develop an exhaustive list of possible revenue-raisers or spending cuts. Rather, we focused on 24 fiscal reforms that we believe would go furthest to make the country more equitable, green, and secure. These reforms amount to an estimated \$824 billion in potential revenue per year — seven times the total savings the supercommittee was tasked with producing.

The recommendations fall into three categories:

- **Revenues that advance a more equitable society:** New taxes on Wall Street, corporations, and individuals could, if rigorously enforced, raise more than \$375 billion a year, while reducing reckless speculative activity and creating a healthier society. Between 1935 and the late 1970s, progressive tax rates and investments in infrastructure, education, and housing expanded the middle class and served as a foundation for decades of broadly shared prosperity. Today, opinion polls indicate widespread renewed support for proposals to increase taxes on millionaires, make Wall Street pay its fair share, and close corporate tax loopholes.<sup>1</sup>
- **Expenditure cuts that would make the United States and the world more secure:** The Pentagon consumes more than half of U.S. federal discretionary spending, much of it on things that do not make us safer. While some jobs rely on this spending, a study by economists at the University of Massachusetts has shown that the military budget is a poor job creator compared to other forms of federal spending. Whereas

\$1 billion devoted to military production creates approximately 11,000 jobs, the same amount invested in clean energy creates about 17,000 jobs; in health care, 19,000 jobs; and in education, 29,000 jobs.<sup>2</sup> We identify three areas where a total of \$252 billion in cuts can be made to free up funds for job creation without risk to our national security. They are:

- 1) End the war in Afghanistan as we end the war in Iraq;
  - 2) Reduce the sprawling network of overseas U.S. military bases; and
  - 3) Eliminate programs that are obsolete and/or wasteful. All three of these goals are supported by the majority of Americans.<sup>3</sup>
- **Revenue increases and subsidy cuts that will create a cleaner environment:** If all polluting industries were required to pay the full cost of environmentally harmful practices and products, they would have greater incentives to adopt improved green technologies and reduce our nation's dependence on foreign oil. The Obama administration has promised to eliminate fossil fuel subsidies and yet U.S. taxpayers are still spending tens of billions of dollars per year on handouts to giant oil and other energy firms. We recommend eliminating this corporate welfare and introducing new taxes on pollution that could generate an estimated \$197 billion per year in revenue.

## II. Taxing Wall Street, Corporations, and the Wealthy

*By Sarah Anderson and Chuck Collins*

Proposed reforms	Potential annual revenues (\$billions)
Tax financial transactions	150
Apply a levy on the largest banks	9
Stop tax haven abuse	100
Close the stock option loophole	2
Impose a progressive estate tax on large fortunes	35
Create additional tax brackets for higher incomes and tax capital gains and dividends as ordinary income	79
<b>Subtotal</b>	<b>375</b>

New revenue has to be part of the solution, since the tax cuts for the wealthy and corporations over past decades are a primary reason we're experiencing budget challenges. Since 2001, our nation has borrowed almost \$1 trillion to provide tax breaks to high-income households. Reversing the 2001 and 2003 Bush-era tax cuts for high-income households is the first step in any program to reduce deficits and raise revenue. Here are several other additional proposals:

### **TAX FINANCIAL TRANSACTIONS: \$150 BILLION**

As recently as the 1970s, most stock trades were carried out by people who were investing for the medium- and long-term. After three decades of deregulation, this is no longer the

case. The cost of trading has been lowered by increased competition between brokers and technological advances. This has benefited all investors, but lower trading costs have also opened the door to widespread speculative activity that erodes confidence in the stability of markets. High-frequency trading now accounts for about 55 percent of equity trades in the United States.<sup>4</sup> This is a threat to the interests of responsible investors. According to the Center for Economic and Policy Research, a modest federal tax on every transaction that involves the buying and selling of stock and other financial products could generate about \$150 billion per year, while dampening rapid turnover of stocks and speculation.<sup>5</sup>

**APPLY A LEVY ON THE LARGEST BANKS: \$9 BILLION**

The White House has proposed a levy on the liabilities of financial firms with more than \$50 billion in assets. While this is no substitute for taxing financial transactions, it would help recoup at least a small share of the costs of the crisis and provide a deterrent against excessive leverage for the largest financial firms.<sup>6</sup>

**STOP TAX HAVEN ABUSE: \$100 BILLION**

By current statute, corporations are supposed to pay a 35 percent tax on their profits. According to Citizens for Tax Justice, over the last three years, the top U.S. corporations have actually paid only 18.5 percent of their profits to Uncle Sam.<sup>7</sup> One of the main ways that large corporations avoid paying their fair share of taxes is by stashing them in overseas tax havens. In doing so, companies like Pfizer and General Electric shift their responsibility for paying taxes to responsible local banks and businesses that operate within our borders. The Stop Tax Havens Abuse Act (S. 1346 and H.R. 2669) would close numerous loopholes that facilitate tax dodging via tax havens. For example, it would treat foreign subsidiaries of U.S. corporations whose management and control occur primarily in the United States as U.S. domestic corporations for tax purposes.<sup>8</sup>

**CLOSE THE STOCK OPTION LOOPHOLE: \$2 BILLION**

Under current rules, companies can lower their tax bills by claiming deductions for stock options granted to their top executives that are much higher than the option value they report in their financial statements. This tax incentive encourages corporate boards to hand executives huge stock option windfalls. The Ending Excess Corporate Deductions for Stock Options Act (S. 1375) would limit corporate tax deductions to the amount expensed for financial statement (book) purposes at the time of the option grant. Closing this loophole would add \$24.6 billion to federal tax revenues over 10 years, or about \$2 billion per year.<sup>9</sup>

**LEVY A PROGRESSIVE ESTATE TAX ON LARGE FORTUNES: \$35 BILLION**

Congress passed a deal at the end of 2010 to reinstate the estate tax at 35 percent and to exempt estates under \$5 million, \$10 million for a couple. Congress should proactively pass a progressive estate tax reform that closes loopholes and raises substantial revenue from those able to pay. The Responsible Estate Tax Act (S. 3533) establishes graduated tax rates and includes a 10 percent surtax on the value of an estate above \$500 million, or \$1 billion for a couple.<sup>10</sup>

**CREATE ADDITIONAL TAX  
BRACKETS FOR PEOPLE  
EARNING \$1 MILLION OR MORE  
PER YEAR AND ELIMINATE THE  
TAX PREFERENCE FOR  
CAPITAL GAINS AND DIVIDENDS:  
\$79 BILLION**

The Fairness in Taxation Act (H.R.1124) would add five additional tax brackets for income over \$1 million. It would also tax income from wealth the same as income from work. Current law subjects most dividend and capital gains income — the investment income that flows overwhelmingly to wealthier Americans — to a 15 percent tax rate. The tax on wage and salary income, by contrast, can run up to 35 percent. This yawning gap is what inspired Warren Buffett to call on Congress to “stop coddling the super-rich” and institute higher rates on income from wealth. With carefully structured rate reform, we can end this preferential treatment and at the same time encourage average families to engage in long-term investing.<sup>11</sup>



### III. Cutting Military Spending

*By Phyllis Bennis, John Feffer, and Miriam Pemberton*

<b>Proposed reforms</b>	<b>Potential annual revenues (\$billions)</b>
Ending the U.S. war in Afghanistan	122
Reducing U.S. overseas military bases	
Eliminate 1/3 of bases in Europe and Asia, as a step towards shutting down bases worldwide	10
Eliminate remaining operations in Iraq	11
Eliminating military waste and unnecessary weapon systems	
Drastically reduce the nuclear warhead arsenal as a major step on the path to nuclear abolition	21
Stop R&D and procurement of unnecessary weapons	22
Eliminate two active Air Force wings and two carrier groups that are not needed to address current and probable future threats	8
Use savings from eliminating inefficiencies to reduce overall military spending, rather than increasing other Pentagon expenditures	20
Cut outsourcing to defense contractors by 15 percent	30
Cut spending on portions of the nuclear weapons complex budget, such as a new bomber, tactical nuclear weapons in Europe, and two new nuclear production facilities, as well as unnecessary military space programs	2
Cut State Department Foreign Military Financing	6
<b>Subtotal</b>	<b>252</b>

#### **ENDING THE U.S. WAR IN AFGHANISTAN: \$122 BILLION**

In 2011, U.S. taxpayers paid \$122 billion for the war in Afghanistan, according to the National Priorities Project.<sup>12</sup> These figures include

only those funds that are expended specifically for the costs of the war. For example, soldiers' regular pay is not included but combat pay is included. They do not include the costs of future medical care for soldiers and veterans wounded in the war or the additional interest

payments on the national debt that will result from higher deficits due to war spending.

The United States is occupying Afghanistan with about 100,000 troops, plus 100,000 U.S.-paid contractors, along with more than 40,000 NATO soldiers. The cost of keeping one U.S. soldier in Afghanistan is \$1.2 million for one year.<sup>13</sup> That's not because the troops are overpaid – many of them would qualify for food stamps if the Pentagon didn't provide a separate food stipend to avoid embarrassing its underpaid troops.<sup>14</sup> It's because of the huge cost of providing for the Pentagon's occupying army. Just getting fuel into landlocked Afghanistan costs \$400 per gallon, while the cost of air-conditioning all those troops is \$20.2 billion per year.<sup>15</sup>

The war is not making us safer, but continues to put us at greater risk as fury grows in response to U.S.-caused casualties. U.S. officials talk about drawing down numbers of troops, but young soldiers are still dying in higher numbers. Every year, Afghan civilians are dying in higher numbers.<sup>16</sup> And the United States is escalating and widening the war using drones illegally in Pakistan, Somalia, Yemen, and beyond.<sup>17</sup> It should not be a surprise that 64 percent of Americans say the war in Afghanistan is not worth fighting.<sup>18</sup>

## *Reducing U.S. overseas military bases*

### **ELIMINATE 1/3 OF U.S. BASES IN EUROPE AND ASIA: \$10 BILLION**

The United States maintains roughly 1,000 military bases worldwide. As Congress begins to evaluate the usefulness of these bases, it will focus its reductions first on Europe and then on Asia, where the bulk of personnel and hardware is located and where the bases are still connected to long outdated Cold War missions. We support the closing of U.S. military bases worldwide, but we recognize the most likely political targets for reduction in the near-term will be in Europe and Asia.

The Center for American Progress and Sen. Tom Coburn (R-OK) argue for a reduction of 50,000 troops from Europe and Asia for a savings of \$70 billion over the next decade, or about \$7 billion per year.<sup>19</sup> In a separate report, Coburn identifies about \$34 billion in savings from reduced maintenance costs related to those base closures over a decade, or about \$3.4 billion per year.<sup>20</sup> (We do note, however, that base closures are not without short-term costs. There should be sufficient funds set aside for job retraining for demobilized personnel and for clean-up costs around the sites.)

**ELIMINATE REMAINING OPERATIONS IN IRAQ: \$11 BILLION**

Ending the Iraq War by the end of 2011 requires shutting all U.S. bases located there. Iraq currently hosts 39 bases, down from a peak of 505.<sup>21</sup> Based on projected costs for U.S. military operations in Iraq in 2012, primarily for the State Department's 15,000 or more military contractors that will be stationed there, a complete withdrawal of that paramilitary force should free up around \$11 billion per year.<sup>22</sup>

*Eliminating military waste and unnecessary weapon systems*

The Institute for Policy Studies is part of a team that releases a yearly Unified Security Budget for the United States. It identifies tens of billions in savings that can be made with no sacrifice in security.<sup>23</sup> The latest edition, which covers the 2012 fiscal year, proposes the following:

**CUTS TO THE U.S. NUCLEAR ARSENAL: \$21 BILLION**

We believe that nuclear abolition is necessary. As a significant step on the path toward this goal, we recommend reducing the nuclear arsenal to no more than 311 warheads, which would save \$21 billion per year. The faculty of the Air War College and the School of Advanced Air and Space Studies have asserted that

this is more than enough to maintain nuclear deterrence against current and likely future threats.<sup>24</sup>

**CUT UNNECESSARY WEAPONS: \$22 BILLION**

The Unified Security Budget identifies huge savings from scaling back or stopping the research, development and procurement of weapons that are not necessary to deter today's threats, including ballistic missile defense, the Virginia-Class submarine, and the F-35 Joint Strike Fighter.<sup>25</sup>

**ELIMINATE UNDER-UTILIZED AIRCRAFT GROUPS: \$8 BILLION**

By eliminating two active Air Force wings and two aircraft carrier groups that are not needed address current and probable future threats, we could save taxpayers around \$8 billion per year.

**SAVINGS FROM REDUCING INEFFICIENCIES: \$20 BILLION**

If the Congress directed the current savings and efficiencies that the Pentagon has identified to reducing the overall Pentagon budget, rather than reinvesting these inefficient dollars elsewhere in the giant Pentagon bureaucracy, we could save about \$20 billion per year.

**NUCLEAR WEAPONS COMPLEX  
CUTS: \$2 BILLION**

A new report from the Project On Government Oversight and Taxpayers for Common Sense has identified additional billions that could be saved with no increased risk to American security. These include deferring a new bomber, freezing development of over-budget military space programs, foregoing the modernization of U.S. tactical nuclear weapons in Europe that NATO is currently negotiating to eliminate entirely, halting construction of a new nuclear weapons production facility at Los Alamos and a nuclear fuel fabrication facility at Savannah River.<sup>26</sup>

**OUTSOURCING CUTS:  
\$30 BILLION**

The Project on Government Oversight and Taxpayers for Common Sense also estimated that just a 15 percent cut in outsourcing of Defense Department functions would save at least \$30 billion per year.<sup>27</sup> This practice has drastically expanded since the year 2000, despite serious problems with the lack of contractor accountability and inefficiency. A September 2011 study from POGO found that the average annual contractor billable rate was much higher than the average annual full compensation for federal employees performing comparable services.<sup>28</sup>

**STATE DEPARTMENT FOREIGN  
MILITARY FINANCING:  
\$6 BILLION**

The State Department is budgeted to spend \$5.55 billion per year to provide grants to foreign governments to purchase U.S.-made weapons. This arms trade often fuel conflicts and contributes to human rights and international law violations.<sup>29</sup>

## IV. Taxing Pollution and Cutting Environmentally Harmful Subsidies

*By Daphne Wysham*

Proposed reforms	Potential annual revenues (\$billions)
Tax carbon emissions	75
Tax air and water pollution	38
Charge user fees for public resources	7
Eliminate fossil fuel subsidies	12
Eliminate nuclear subsidies	10
Eliminate ethanol, "clean coal," and other dubious new energy subsidies	19
Eliminate subsidies that promote unsustainable agriculture	11
Eliminate subsidies for environmentally harmful transportation projects and land and water use	24
<b>Subtotal</b>	<b>197</b>

### **CARBON TAX: \$75 BILLION**

A tax on the carbon content of fossil fuels could help reduce our dependence on foreign oil, cut air pollution and emissions of greenhouse gases, and promote energy technology innovation. Revenue estimates for taxes on carbon emissions vary greatly, depending on the coverage and the response of consumers and producers. In a widely cited article in the Harvard Environmental Law Review, Professors Gilbert E. Metcalf of Tufts University and David Weisbach of the University of Chicago conclude that a modest tax on emissions from

fossil fuels alone would likely raise between \$75 billion and \$100 billion per year.<sup>30</sup> Their calculations are based on several carbon tax bills introduced in the U.S. Congress, covering a range of tax rates and time periods. Because poorer households spend a greater share of their disposable income on consumer goods than the wealthy, most proponents of carbon taxes have proposed ways in which all or a portion of the revenues from the carbon taxes would be used to compensate consumers, for example through rebates or by financing reductions in the federal payroll tax.

**AIR AND WATER POLLUTION  
TAXES: \$38 BILLION**

By shifting more of the tax burden onto activities that cause air and water pollution, we can make the economy more productive, enhance our quality of life, encourage the development of alternative energy technologies, and strengthen national energy security. These figures were calculated by the bipartisan group Get America Working, based on data from the Environmental Protection Agency and the Joint Committee on Taxation.<sup>31</sup>

**USER FEES FOR PUBLIC  
RESOURCES: \$7 BILLION**

Taxpayers should be fairly compensated when the private sector profits off of our public resources, such as offshore oil drilling and gas production and the use of radio spectrum licenses. Modest increases in these payments could raise an estimated \$7 billion per year.<sup>32</sup>

**FOSSIL FUEL, NUCLEAR, AND  
OTHER ENERGY SUBSIDIES:  
\$12 BILLION**

Public opinion polls show that the vast majority of Americans of all political persuasions oppose subsidies for oil, gas, coal, and nuclear power.<sup>33</sup> These mature energy industries are both highly polluting and highly profitable. Based on figures in the bipartisan 2011 Green Scissors report, the United States could save about \$22 billion every year by cutting government handouts to

these industries.<sup>34</sup> That report also identifies \$19 billion per year in wasteful subsidies for dubious “alternative energy” industries, such as “clean coal.”

**AGRICULTURAL, TRANSPORTATION,  
AND LAND/WATER  
SUBSIDIES: \$11 BILLION AND  
\$24 BILLION, RESPECTIVELY**

The vast majority of agricultural subsidies flow to corporate farms rather than helping to shift our food system to more environmentally friendly and sustainable practices. The Green Scissors report identifies about \$11 billion per year in corporate welfare for agribusinesses.<sup>35</sup> It also highlights \$21 billion per year in wasteful transportation funding that is not helping the nation shift to more energy-efficient forms of travel, as well as another \$3 billion in harmful land and water use policies, such as flood insurance that encourages intensive development in flood zones.

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25. We have deducted \$6.5 billion related to personnel reductions from the Unified Security Budget so as to avoid double-counting the savings proposed here through the reduction in U.S. military bases.
26. Figures represent an annualized average of cuts recommended over a longer time period in this report: "Spending Less, Spending Smarter: Recommendations for National Security Savings FY 2012 to FY 2021," Project on Government Oversight and Taxpayers for Common Sense, October 19, 2011, <http://www.pogo.org/pogo-files/reports/national-security/spending-less-spending-smarter-ns-wds-20110721.html>
27. Figures represent an annualized average of cuts recommended over a longer time period in this report: "Spending Less, Spending Smarter: Recommendations for National Security Savings FY 2012 to FY 2021," Project on Government Oversight and Taxpayers for Common Sense, October 19, 2011, <http://www.pogo.org/pogo-files/reports/national-security/spending-less-spending-smarter-ns-wds-20110721.html>
28. Project On Government and Oversight, "Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors," September 13, 2011. <http://www.pogo.org/pogo-files/reports/contract-oversight/bad-business/co-gp-20110913.html>
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31. Calculated by the bipartisan group Get America Working for a forthcoming paper entitled "Job Creation Tax Options." Air pollution estimates are based on figures from the EPA National Emissions Inventory, 2008. <http://www.epa.gov/ttnchie1/net/2008inventory.html>. Water pollution estimates are based on calculations by the Joint Committee on Taxation of the U.S. Congress, which is cited in this paper by the World Resources Institute: [http://pdf.wri.org/greening\\_the\\_tax\\_code.pdf](http://pdf.wri.org/greening_the_tax_code.pdf)
32. Rep. Jan Schakowsky, "Schakowsky Deficit Reduction Plan," Nov 16, 2010. [http://schakowsky.house.gov/images/stories/1202\\_Schakowsky\\_Deficit\\_Reduction\\_Plan.pdf](http://schakowsky.house.gov/images/stories/1202_Schakowsky_Deficit_Reduction_Plan.pdf)
33. Civil Society Institute survey, November 3, 2011. <http://www.civilsocietyinstitute.org/media/110311release.cfm>
34. Figures represent an annualized average of cuts recommended over a five-year time period in the following report: Public Citizen, the Heartland Institute, Friends of the Earth, and Taxpayers for Common Sense, "Green Scissors 2011: Cutting Wasteful and Environmentally Harmful Spending." <http://greenscissors.com/news/green-scissors-2011/>
35. Figures represent an annualized average of cuts recommended over a five-year time period in the following report: Public Citizen, the Heartland Institute, Friends of the Earth, and Taxpayers for Common Sense, "Green Scissors 2011: Cutting Wasteful and Environmentally Harmful Spending." <http://greenscissors.com/news/green-scissors-2011/>



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