

AFTERWORD

*The Road Ahead: Democratic Renewal,
(Moderate) Republican Revival—Or a Transformational
Third Party Before the Decade Is Out*

Anyone who writes a book on public policy knows that it's not generally an exercise in reaching the masses; you hope at best to reach some of the "wonks" who specialize in these areas, and if you can influence the way a few of them think about certain issues, you count it a success. When the book takes on the extra hurdle of trying to bridge the gap between Democrats and Republicans in a highly partisan era, it starts to feel more like a job for Don Quixote than anything else. Like most people who write such books nonetheless, I had a deep desire to get certain ideas "out there." In my case, I wanted to fill what seemed to be a void, and to bring together in one place a potential agenda and an "ideologically androgynous" way of thinking that suggested we could in fact come together to solve some of our biggest domestic problems. Now that the book has been out for more than a year, I can report that there is a lot more interest and enthusiasm than I had anticipated in making progress on these problems in fresh ways. In this sense, the response to the book is a hopeful sign for our politics.

It was an encouraging surprise, for example, that *The Two Percent Solution* made bestseller lists and that its ideas attracted the interest of such distinguished and diverse readers as presidential candidate Wesley Clark, New York Attorney General Eliot Spitzer, new Illinois

Senator Barack Obama, new Indiana Governor Mitch Daniels, and many others. The enthusiastic reception the book's ideas have received from audiences of all stripes during dozens of speeches I've given across the country seems strikingly at odds with the way we see ourselves reflected in the media nowadays.

All this persuades me that press hype about red and blue states and about how divided Americans supposedly are is fundamentally mistaken. The reality is that people remain hungry to get past partisan bromides and ideological blinders to find real answers, and they're open to a pragmatic blend of liberal and conservative thinking that helps us get serious. Most people think it's shameful and crazy that we have 45 million people without basic health coverage, or an economy that leaves tens of millions of families that work full-time living at the edge of poverty. They think it's wrong that millions of poor children languish in failed, crumbling schools—and that as a nation we systematically assign our least qualified teachers to the kids who need great teachers the most. With the right leadership, this same American decency and pragmatism can be harnessed to offset the influence of big money in our campaigns, put Social Security and Medicare on a sustainable footing, slow the growth of health costs, and more.

But leaders need new policy options and a vision of what they can mean for the country in order to move us toward these goals. Now that a divisive presidential campaign is behind us, the Two Percent agenda is more timely than ever. The book's animating idea remains a fact utterly missing in today's official debate: that getting serious about the uninsured, the working poor, schools for poor children, and related woes doesn't require some utopian "liberal" revolution, but literally a marginal change in the resources and attention we devote as a nation today. Two Percent is also about squaring these common-sense ambitions with the need to fund the baby boomers' imminent, costly retirement—an issue placed front and center by President Bush's pledge to take on Social Security reform in his second term.

Although the Republican Party rules Washington now, its majorities are modest, and with Senate rules requiring 60 votes to close debate, nothing serious can be accomplished without bipartisan support. We still face two choices: (1) gridlock and make-believe, un-

der which we pretend to make progress while our domestic problems fester until they explode sometime down the road; or (2) a pragmatic but ambitious agenda that honors both sides' values, and which enables Democrats and Republicans to come together to produce real gains. I'm a congenital optimist and know the more hopeful result is possible. But a betting man surveying the political scene today would have to say the odds favor gridlock and drift.

Needed: Leadership and Followership

What can change this? As always in politics, only two things: leadership and followership.

Our leaders need to risk some new directions, risks you'd think Democrats in particular would be ready to take after their demoralizing defeat in 2004. The seeds of change are there. Barack Obama electrified the party with a convention speech (and, as important, a two-year campaign across Illinois) that conspicuously reached across all divides with a voice that for that very reason sounded fresh. "The pundits like to slice-and-dice our country into . . . Red States for Republicans, Blue States for Democrats," Obama said at the convention.

But I've got news for them. We worship an awesome God in the Blue States, and we don't like federal agents poking around in our libraries in the Red States. We coach Little League in the Blue States, and we've got some gay friends in the Red States. There are patriots who opposed the war in Iraq and there are patriots who supported the war in Iraq. We are one people. . . . Do we participate in a politics of cynicism or do we participate in a politics of hope?

And again:

People don't expect government to solve all their problems. But they sense, deep in their bones, *that with just a slight change in priorities*, we can make sure that every child in America has a decent shot at life, and that the doors of opportunity remain open to all.

With luck, the success of Obama's political style will spawn imitators, as did John McCain's. On the Republican side, Mitch Daniels's remarkable year-long RV trip during his gubernatorial campaign into every hamlet of Indiana, from which he emerged not only with innovative reforms for state bureaucracies but fresh empathy for the uninsured and the working poor, proves this spirit goes beyond party. From Obama to McCain to Daniels, a political style is being modeled that engages real problems, eschews old platitudes, and risks special-interest scorn for new thinking—precisely the sensibility needed for an ideologically androgynous agenda like Two Percent.

Better “followership” remains as essential. That means a critical mass of citizens that makes the world safe for leaders on both sides to approach our problems in different ways. Leaders need to know a constituency stands ready to support them when they step beyond the ideological litmus tests interest groups impose. When people ask me how we make a Two Percent-style agenda a reality, my response always begins with the notion that “the other 98% is up to you.” That iron law of politics still holds: politicians will scramble to lead any parade that forms. That's not a pejorative statement; it's a description of how democracy works. Seen this way, the task of citizens is to help organize the right parades.

Because domestic issues were relegated to the periphery of the 2004 presidential race, it may be helpful to share the reactions Two Percent received as I made the rounds during the campaign year. They offer some ideas for how the Obamas and McCains on both sides might find common ground. The truth is, I'm so convinced from these experiences that a constituency for real answers is waiting to be summoned that I'll make this prediction as well: If neither party steps up to our critical challenges, a new third party will emerge that transforms our politics by the end of this decade. I'm not talking about some Ralph Nader-style lefty fringe group but a “radically centrist” party built by leaders and citizens who won't stand for bipartisan charades in the face of so many unmet national needs—especially on the eve of the fiscal and economic convulsion that the baby boomers' retirement is poised to bring.

*Dialogue Amidst “The Great Divide”—
A Two Percent Report from the Field*

While the presidential campaign was preoccupied with swift boats and flip-flops and the news from Iraq, I was peddling the Two Percent domestic agenda to groups across the country. Much of the time I felt like a shuttle diplomat. Liberal groups would generally say: “Wow! Love that ‘2%’ idea—what a great way to frame the issue and get people to accept the idea of investing \$200 billion or more on these priorities. But why do we have to go along with these systemic reforms you’re talking about—can’t we just take the money?” My answer was that conservatives were right that it didn’t make sense to pour more money into these areas without making sure it could be spent effectively. For example, we don’t need to raise every teacher’s salary toward \$100,000 or more to attract the talent we need to high-poverty schools; but we should raise salaries for the best teachers, and for shortage specialties like math, science, and special education, where students with such training have more lucrative options outside the classroom. People would come up afterwards and say that the fact that I was a Democrat who supported “big spending” on “liberal” goals made them more open to the conservative-sounding reforms I proposed if they would help us (1) get the results we wanted and (2) deliver the bipartisan support such big new initiatives require. As I argued, major changes to the nation’s social commitments are only durable if they pass by votes of 80–20, not by votes of 51–49.

Conservative and business groups were the mirror image. In nearly every instance a businessperson stood up after I spoke and said something like, “Look, we agree that a decent society as wealthy as America’s shouldn’t have these huge problems like the uninsured. What you say sounds entirely reasonable. But how do we know that if we pony up the money, the liberals will make the kind of reforms you’re talking about that assures the money isn’t just poured down a rathole?” I’d reply that it was a legitimate concern—that this was precisely the kind of discussion and negotiation that needed to take place on a large scale—but that these worries couldn’t be an excuse

for not engaging with the ‘other’ side and working together to act. I’d also note that many on the left were understandably suspicious that conservatives had any interest in these problems at all, since all they ever heard from the right were cries for more tax cuts even as (1) deficits surged, (2) these problems festered, and (3) government spending shrank further below what it was under Ronald Reagan as a share of GDP.

A few conservatives wrongly asserted that my agenda was an attempt to run our economy “like Europe,” where taxes are so high and labor rules so restrictive that jobs and growth are stifled. It’s important to rebut this falsehood because it’s an angle that misguided or disingenuous critics will use to try to close people’s minds. Here’s the truth: extending basic health coverage or a federally subsidized living wage wouldn’t come close to putting us on the road to European-style stagnation. Europe’s welfare states feature taxes and spending of around 50 percent of GDP; in the United States, government (including the states) takes and spends roughly 30 percent. In other words, a few percent more here would go a long way to create equal opportunity and assure a minimally decent life for American workers. Yet when the dust cleared, America would still be far more a cowboy economy than some cushy, cradle-to-grave bonanza.

To be sure, there were extremists who wouldn’t even deign to engage in the conversation. The conservative activist Grover Norquist, for example, whom I debated at an event at the American Enterprise Institute in Washington, D.C., essentially said, “Why should we negotiate with the left? We’re crushing you. There’s no need to talk.” After that event a number of Republicans, including a Bush administration official, rushed up to say how embarrassed they were about the way Grover spoke, and to insist that “we’re not all like that.”

A number of self-identified “Christian conservatives” came up to me after speeches to say the book’s agenda truly resonated with them. They spoke of the Bible’s notion that we would be judged by how we treated “the least among us.” They said the way Two Percent stressed the role of luck in life—that is, the “pre-birth lottery” that goes so far to determine everyone’s life prospects—struck them at bottom as a religious idea. It suggested humility in the face of the divine, and a

need to make sense of the mysterious way we come into the world, endowed with characteristics over which we have no control. Asking what we owe each other as a result of this basic human condition was one way of doing God's work on earth, they said. I was instructed and moved by their thoughts, and wish I'd made this connection more explicitly in the book. I hope others find this notion useful as they talk about the kind of agenda the book promotes.

In the end, I came away with two overriding impressions after a year discussing these ideas with people across the country. First, people are *starving* for an honest dialogue with public figures they can trust. They resent being passive recipients of poll-tested symbolic appeals. They view Washington (with some reason) as comprised of two partisan, mutually reinforcing opinion cocoons, where even "their side" can't fully be trusted. Neither can the press.

The other big lesson is that the bigger we're willing to think, the easier it becomes to lift people beyond their usual positions and their cynical suspicions about politics, a reaction that seemed to affirm the hypothesis at the core of Two Percent. Only when you propose solutions equal to the scale of our problems do you call on people's better angels. "Make no little plans," the urban architect Daniel Burnham once said. "They have no magic to stir men's blood." He was right.

*But How Can You Pay for Two Percent Now with Iraq—
and with These Huge Deficits?*

Two questions have come up often in my travels that deserve special mention. How can we pay for Two Percent with the Iraq war going on? And how can we pay for it given the record budget deficits the Bush Administration is running?

On Iraq, the short answer is that while its \$200 billion-plus cost has exceeded our worst fears, this will not be an effort that continues at \$50 to \$75 billion a year for the indefinite future. Whatever you think of the war, in other words, it will not present an ongoing budget cost on this scale. While this means it is harder to fully fund Two Percent this year, it does nothing to change the agenda's feasibility over

time. The same is true for our overarching struggle against global terror. Remember, during a half-century Cold War we still managed to extend Social Security to all seniors, enact Medicare and Medicaid, send men to the moon, and invent federal student loans, Head Start, the Peace Corps, and much more. Bottom line: America is rich enough and has enough political capacity to walk and chew gum at the same time.

On the deficits, the first thing to recall is that today's outsized red ink doesn't alter the basic Two Percent insight: that two cents on the national dollar can get us a long way toward real answers on these problems. But deficits do matter. What they mean is that in addition to "finding two cents" to fund the plan, we must also, thanks to President Bush's recklessness, find another three or so cents on the national dollar to shrink these deficits in the years ahead.

To listen to both George Bush and John Kerry in the recent campaign, you'd think it was impossible to do more than cut the \$400 billion-plus deficit in half over the next four years. But that's not true: It's just the limit of what both parties were willing to discuss on the stump. That may have sufficed for them politically, but why should America wait that long when there are straightforward ways to get the budget under control more quickly and thus make room for Two Percent-style initiatives to begin? The only thing a more aggressive deficit reduction plan puts at risk is the ability of our leaders to avoid proposing anything the least bit ambitious.

But decide for yourself. You can wait four years, during which both parties' phony "plans" probably won't even cut the deficit in half as they promise, and serious new initiatives in health, education, and more get put on ice. Or we can do two simple things: (1) freeze all federal spending for one year (except for the phase-in of the new Medicare prescription drug plan for low-income seniors); and (2) repeal the Bush tax cuts that go to the best-off Americans. Under this freeze-and-rollback plan, we'd cut the deficit from 3.6 percent of GDP in 2004 to around 1.1 percent of GDP in just two years (in nominal terms, from around \$400 billion to the low \$100 billions). Cutting the deficit by 70 percent over two years rather than by half (if we're lucky) over four years gets us back to deficits that are manage-

able—because deficits near 1 percent of GDP should be no bar to pay-as-you-go initiatives in the Two Percent spirit. Indeed, enacting a freeze-and-rollback now lets us simultaneously phase in a new Two Percent-style agenda, since it would take a few years for such efforts to ramp up.

In other words, once you think outside the typically pinched boundaries of bipartisan debate, this is doable. If something like this faster deficit reduction doesn't happen, it's because President Bush and the Republicans won't move off their unsustainable tax cuts at the top, and because Democrats would cry that a one-year spending freeze imposes an intolerable burden (but you can also see the makings of a deficit reduction "grand bargain" here). I'm not downplaying the fact that there would be some pain for some people—like low-income seniors who don't get a cost of living increase in Social Security for one year, though I've tried to offset the impact here by having the new drug benefit begin. But we're in the middle of a war, we have huge unmet needs at home, and the boomers' retirement is closing in. In these circumstances can it really be unthinkable to ask every federal beneficiary to get by—just for one year—on exactly the same amount on which they got by last year? This freeze-plus-rollback is a sensible way to get our budget under control fast while launching new initiatives (funded by the other changes laid out in Chapter 10). It won't be the end of our budget challenges, to be sure. Newt Gingrich, for example, admitted to me recently that taxes will have to go higher as share of GDP over the next decade as the boomers retire, an obvious fact to anyone who looks at the math, but one that few elected Republicans have the candor to acknowledge.

I'd also reiterate from the book two more things that are needed to help forge consensus on our longer-term fiscal challenges.

First, the country needs a vehicle that can galvanize establishment thinking and leadership on the Two Percent issues within the context of our overall budget. My preference is a National Commission on Everything Else We Need to Do (Besides Social Security and Medicare) Before the Boomers Retire. That's wordy, I know, so maybe a National Commission on Nonelderly Priorities will do. Its mandate would be to identify and prioritize what resource-sensitive needs the

nation should address in the next decade, apart from the elderly health and pension issues that are already front and center. The commission would be asked to produce a blueprint that squared the funding of these needs with the funding required to finance the boomers' retirement. And it would be asked to provide intensive public education on our coming fiscal collision and the challenges it poses. Obviously a bold call for a commission doesn't in itself solve anything. But if done properly, it could be the vehicle that helps reorient national debate in ways that both political parties would welcome, because both must shortly figure out how to integrate the needs of graying boomers with the needs of the rest of America.

Next, we need a Manhattan-style project on national health costs, which if left spiraling will make it impossible before long for the public and private sectors to devote cash to other needs. Ideally this would start as a presidential commission, as Rick Wagoner, the CEO of General Motors, and Hank McKinnon, the CEO of Pfizer, have separately called for. But if President Bush doesn't see fit to tackle this central issue, a business-led initiative that develops new answers for political leaders will be required. Chief among this group's tasks will be to finally change the way we discuss "controlling health costs"—a change that moves us away from *cost shifting* (from business to employees, for example, or from state government to the feds) and toward system-wide *cost re-engineering*.

*Democratic Renewal—
How Two Percent Offers a Problem-Solving Path*

I wrote *The Two Percent Solution* in the hope that in an era of closely divided power it might offer a roadmap through which both parties could join to make progress. After the 2004 election, however, it's clear that some of the book's ideas have special relevance to Democrats seeking to renew their party by offering the country fresh ways to solve problems that President Bush is either ignoring or framing in misleading ways. The book also speaks to moderate Republicans seeking to pull their party back toward its traditional concerns for fis-

cal responsibility and for genuine (not merely rhetorical) efforts to help those left behind. Let's take Democrats first, since there are several immediate ways the party can use the book's ideas to transform domestic debate, including one approach that requires only 1 percent!

Defining Decency Up

The first recommendation is that Democrats call on the country to update our definition of what makes for a minimally decent life. My vote is for a Democratic rallying cry of, "Basic health coverage and 9 to 10 bucks an hour!" The debate such a goal would spawn would be morally and economically clarifying—and Democrats would prevail.

Here's why. The conservative view of the decent minimum goes something like this: "You're lucky to be in America; you're lucky to have a job; you're lucky to have the emergency room." The right isn't all wrong here. Millions of people across the world would give anything to be our working poor, or to have "only" U.S. emergency rooms for their primary care. But Democrats can explain that this pinched vision isn't good enough for a country that should be the standard-setter for the possibilities of capitalism—especially when we can achieve a more decent life in ways that are economically rational and don't kill the "golden goose" of growth.

If we listened to conservatives, after all, we'd have never abolished child labor or sweatshops, established the weekend and the forty-hour week, or enacted food, drug, and workplace safety laws. Democrats can place the debate over a decent minimum in an easily understood historical trajectory—a history of progress that the overwhelming majority of Americans support. Each generation, they can say, is called on to define and fight for its new version of this "decent minimum," and to show how it can be squared with capitalism. It's in this context that they would lay down a marker of basic health coverage and a closer-to-living wage of \$9 to \$10 an hour, and challenge conservatives to explain which part of that vision they don't like.

Just as important, Democrats can teach the country that "defining decency up" along these lines isn't some woolly-headed liberal extrav-

aganza. In fact, it can be done in economically sound ways that don't place the full burden of achieving America's decent minimum on business, and at a cost of roughly a penny on the national dollar. That amount—1 percent of GDP, or roughly \$110 billion a year—is enough to fund basic health coverage for the uninsured, as well as supplements to the wage subsidies for the working poor now conferred via the earned income tax credit. If the minimum wage is raised to \$7 an hour (its level, in real terms, in the 1970s), and then indexed thereafter to inflation, such subsidies would assure a living wage of at least \$9 an hour.

The beauty of such a simple proposal is that it takes us past isolated debates that obscure the bigger picture. Fights over narrow areas like welfare, Medicare, or tax reform invariably proceed along stale ideological lines. But if Democrats invite all of us—from Chardonnay-sipping Blue Staters to gun-toting Reds—to embrace a new definition of American decency and to discuss how its burdens should be shared, the conversation will become more engaging and edifying overnight. Even the media will be able to follow it.

Who will say people can live in 2005 on less than \$9 an hour? Who will defend the status quo of 45 million uninsured? And who will say that ending this poverty and indignity isn't worth a penny on the national dollar—roughly a third of the tax cuts President Bush has tilted toward the best-off in a time of war?

Investing to strengthen America's decent minimum isn't ultimately a matter of altruism, Democrats can argue. It's a prerequisite for maintaining a political consensus for the open markets and technological change that in the long run benefit us all, but which in the near term hurt many Americans. Democrats need to connect the global dots here. A consensus for open markets is essential, for example, if poorer countries are to reach their own economic potential, which in turn helps stem the tide of low-income immigrants who might otherwise head for our shores, where they'd bid down wages here for less skilled workers. Democratic leaders should be able to enlist business in arguing that a more comprehensive safety net, not tied to one's job, is the proper national response to the outsourcing phenomenon, especially when we don't know what portion of U.S. jobs will ultimately

be put at risk by these developments, and how far up the skill and income scale things will go.

All these policies and arguments let Democrats expose the hoax of President Bush's "compassionate conservatism" by contrasting it with a concrete alternative. By defining decency up, Democrats can renew an ideal around which all Americans can rally.

Heirs Versus Teachers—Let the People Decide!

Democrats can also use Two Percent's opportunity agenda to frame the debate about national priorities in a way that contrasts Bush's tax cuts for the top with investments that give every child a shot at the American Dream.

Take the desperate shortage of quality teachers in high-poverty schools. We know that President Bush supposedly cares about this because No Child Left Behind included a federal decree that "thou shalt have a quality teacher in every class by 2006." But, as with most of his "compassion," Bush is willing to commit everything but money to the cause. The reality, however, is that teaching salaries that begin around \$40,000 and top out (if you've taught for 25 years and managed to pick up a PhD at night along the way) at \$75,000 can never lure the talent we need to America's most challenging schools. How could it, when nearby affluent suburbs pay teachers more, have better working conditions, and have easier-to-teach kids?

Market-loving conservatives who are serious about equal opportunity acknowledge that poor districts need better teaching talent. They also know you'll never get these folks without paying at least as much as nearby suburbs, if not more. But Bush's agenda here is a charade. Bush has thrown about \$700 million a year into the federal pot for teacher development, which he hypes as a "25 percent increase" because the pot is tiny to begin with. Then he talks about giving teachers a deduction for the \$400 a year most spend out of their own pockets for classroom supplies. Now that's compassion! Would Bush offer soldiers a deduction for ammunition they buy out of their own pockets—or insist they have the equipment and resources to do their job right?

While Bush can find only pennies for teacher quality, his elimination of the estate tax will shower some \$30 billion a year on heirs in the 3,000 wealthiest families in America. This money could fully-fund the “grand bargain” to recruit and retain a new generation of teachers in poor districts from Chapter 6—a plan that educators agree could transform the teacher corps.

Billions for heirs whose lifestyles won’t change an iota either way—or billions for a new deal for hundreds of thousands of teachers to make equal opportunity for poor kids a reality? I say, let the people decide! Now, if only there was a political party in America interested in framing our choices in ways that actually let people see things this way . . .

*Bush’s Social Security and “Tax Reform”—
How Two Percent Democrats Should Respond*

President Bush wants the domestic agenda in 2005 and beyond to be largely about Social Security and “tax reform,” and between the powerful megaphone of the White House and the disarray of his Democratic opposition, he’s likely to get what he wants. Two Percent offers Democrats a way to reframe these debates and seize the initiative for progressive ideas, but only if Democrats are willing to move past calcified party dogma that leaves them blind to their best opportunities. After 2004, if Democrats aren’t ready to rethink, there may be little hope for the party.

Social Security: Fix Solvency First!

President Bush says he wants to use his 51–48 “mandate” from the 2004 election to partially privatize Social Security. Liberals say this will unravel the very notion of social insurance; conservatives say it will offer younger workers the chance for higher returns. But both sides are being unusually disingenuous, even by Washington standards.

First, the left won't admit that the president isn't talking about fully privatizing Social Security. The most typical GOP plans seek to do is give workers a chance to put about one-sixth of today's payroll tax into accounts they own, invest, and control. Such plans were also pushed by farsighted Democrats like Daniel Patrick Moynihan, who feared a replay of the politics of welfare reform, in which liberals spent years holding the line against any change while those wanting to scrap the program defined, and then won, the debate. "If you don't open this up and do the few things you have to do," Moynihan told me not long before he died, "you'll lose the system." Worse, the left assails such plans by comparing them unfavorably with so-called current benefits under the system, when every honest observer knows these "current benefits" can't be financed (atop Medicare's ravenous revenue appetite) without economy-killing tax hikes.

But conservatives, obsessed with the higher returns young workers could earn on their own, duck the question of how to get from here to there, in effect promising a free lunch. The trick in switching mid-stream from today's "pay-as-you-go" system to a pre-funded private retirement system is that one generation has to pay twice: first for the retirement of its parents, and then for its own, since younger folks in a private scheme will start paying for themselves. Usually such plans require at least a trillion dollars in these "transition" costs. Conservatives either can't do the math or simply won't admit that they can't have Bush's tax cuts and also fund their transition to partial private accounts. Democrats can fairly blast Republicans here for continued fiscal recklessness and for peddling the worst kind of accounting hoaxes to mask what they are up to.

Yet here's the critical point: whether you're for or against partial privatization, we're still going to need a financing mechanism that can close a gap in Social Security that amounts to roughly 2 percent of payroll over the next seventy-five years (the equivalent of about \$10 trillion in current dollars, depending on whose numbers you believe). So here's a radical thought: Why don't Democrats simply propose common-sense steps to fix the system's finances straight up, and thereby expose even the GOP's partial privatization drive as an ideologically-driven sideshow?

A call to “Fix Solvency First” would do just that. Democrats would say that Republican calls for privatization have nothing to do with keeping Social Security sound. “Let’s make the basic system solvent for the next generation first,” Democrats should say, “and then, when that’s done, let’s have a separate debate about the ways government can help promote wealth creation for ordinary Americans over their lifetimes.”

There are any number of credible ways to fix solvency first. In Chapter II of *The Two Percent Solution*, I propose changing the way initial Social Security benefits are set, using calculations that update a person’s earnings over his working life based on the change in average prices since earlier years, not based on the (higher) change in average wages. What does that really mean? In plain English, this would mean that starting a few years from now we would no longer promise each new cohort of retirees higher real retirement benefits than retirees get today. Why is this sensible and fair? Because with the fiscal crunch of the boomers coming, it is not right to pledge in advance to provide continually higher benefits to one group in perpetuity, when so many other major pressing needs (like the uninsured) have yet to be addressed.

In pure political terms, the nice thing about this approach is that it more than restores long-term solvency to Social Security with one stroke—and does so without any increases in payroll taxes, which are already an undue burden on working Americans. By letting Democrats step forward and say, “we can fix Social Security without tax hikes,” it forces the Republicans’ hand. They’d have to accept that deal, or admit they are pushing an ideological agenda that has nothing to do with making Social Security sound.

Democrats need an argument like this not only for policy reasons, but because of that old political truism: when the president rolls out his Social Security plans in 2005, Democrats can’t fight something with nothing. Under the Two Percent approach, Democrats can say, “We’ve got a plan that the president’s own Social Security administration says will fix the current system without increasing taxes. It’s hard to understand why the president keeps pushing to rip up and de-fund this critical program for ideological reasons when even his own staff says it’s not necessary.”

If you're with me this far, please note: Everything I've just said runs deeply against establishment Democratic thinking, which views future benefit trims (even when they'll leave benefits slightly higher than today's) as unmentionable even though everyone also knows they are inevitable. But since the 2004 election, in which Democrats lost the elderly vote after trying to scare old folks (again) about Bush's "secret plan" to destroy Social Security while offering no answers of their own, "establishment Democratic thinking" seems worthy of challenge on its face.

When I explain this potential Social Security fix and its rationale in speeches, it strikes most people as reasonable. Yet many Washington liberals I respect (including some senior officials at AARP) feel that this shift to "price indexing" from "wage indexing" (in the wonky shorthand) trims future benefits too much; they'd prefer that the system be made solvent via a balanced package of benefit changes and tax increases (Peter Orszag and Peter Diamond have co-authored a leading proposal here). Either way, "fixing solvency first" would free us to have the kind of discussion that's impossible today. Democrats want government to fund new private accounts on top of Social Security to help middle- and low-income families build nest eggs for retirement. Republicans want to let workers divert a small piece of today's payroll taxes into private accounts to help toward the same end. If solvency has been solved, we could have a much cleaner conversation about building wealth for retirement in such ways. In my view it would give Democrats the best opening to make the case for new savings accounts outside Social Security—accounts to which government could add extra "matching" funds to help lower-income folks build up assets.

"Tax Reform"—Reframing The Debate

President Bush also claims a "mandate" for tax reform from the 2004 election, an odd notion since he never discussed in the campaign what reforms he might have in mind. Bush's political intent here is plainly to have "tax reform" in the headlines between now and the 2006 midterm election, since when campaigns revolve around issues

like taxes and national security, Republicans tend to prevail; when they focus on areas like health care or education, Democrats tend to do better. While Democrats should work to turn the news agenda toward more pressing Two Percent needs (a task likely to require creative publicity strategies, since they lack the White House's ability to "make news"), they'll also need a strategy on tax reform to assure that progressive ideas prevail. Two Percent thinking offers a way.

The usual thrust of Republican tax reform is to make the tax code simpler, by which conservatives usually mean "flatter," or less progressive. I'm open-minded, but I've never seen a tax "simplification" proposal that doesn't reduce the burden on the wealthy while shifting it to middle- and lower-income folks. We've done enough of this already thanks to President Bush. It's wrong.

Democrats should shout this from the rooftops. But beyond this, Democrats should use the tax debate to force an overdue discussion of the unfair burdens of the payroll tax, as detailed in Chapter 2. Four in five Americans now pay more in payroll taxes than in income taxes. Ignoring these workers while giving continued big breaks to the wealthiest one percent represents trickle-down at its most brazen.

Again, leading this debate requires the party to transcend some deep intellectual confusion. Democrats have always preferred to treat any GOP talk of cutting payroll taxes as a mortal threat to Social Security and Medicare, since payroll taxes are devoted to these programs. The answer is for Democrats to realize that their demagoguery on Social Security and Medicare, apart from being substantively unproductive, *isn't working politically*. Then they'll be liberated to lead the country beyond the fiction that payroll taxes are sacrosanct and urge us to view public finance instead as one big "cigar box"—like those "mom and pop" storekeepers of old, who put cash into the cigar box behind the counter and then spent it as they saw fit, without some mystical regard for what "earmarked revenue stream" the money came from.

Simple as it sounds, taking the position that taxes are taxes and spending is spending would be a radical departure. But not so radical as our leaders let on. Behind closed doors, farsighted leaders in both parties admit that Social Security will require huge general revenue

bailouts after the baby boomers retire. So payroll tax purity is living on borrowed time anyway. Much of Medicare, meanwhile, is already paid for by the general fund.

And with the payroll tax having quietly soared from 2 percent to 37 percent of federal taxes since World War II, it's high time to reframe the issue to permit a discussion of its crazy burdens, and potential alternatives. This is a debate Democrats could lead to great effect if they weren't torn between the substantive desire to ease payroll taxes and the demagogic convenience of etching them in stone.

*Calling All Rockefeller-Schwarzenegger-Whitman-Powell
Republicans!*

What about the Republicans? The main message of Two Percent for the Bush White House and the increasingly ultraconservative GOP congress is "whoa!" The GOP's reckless fiscal path and its phony unfunded commitments to those "left behind" represent cynical politics and bad policy at their worst. The fact that this agenda may be "selling" thus far does not negate this; as Ronald Reagan said, "facts are stubborn things," and the facts will catch up with the hard right. Worse, the GOP's present course is untrue to conservatism's best values.

Take fiscal policy. Bush has lowered federal taxes from around 20 percent of GDP when he took office to around 16 percent of GDP today. That's lower than at any time since the 1950s, before Social Security was fully phased in, before Medicare and Medicaid (which he's been expanding) were enacted, before federal student loans were created, and much more. Bush's favorite canard—that the way out of today's record deficits is through "spending discipline"—would require far more dramatic action on spending than Newt Gingrich's revolutionaries ever contemplated in the mid-1990s. Back then, of course, fearing a public backlash, the GOP lost its nerve far short of Newt's tamer ideas.

Some radical conservatives in the Grover Norquist mold seem to think that forcing a fiscal crisis by defunding government in the face

of the boomers' retirement will lead the public to accept deep cuts or even the elimination of large chunks of Social Security and Medicare. But if this is really what more nihilistic conservatives conceive of as a "plan," they're in for a big surprise. For starters, President Bush headed in the opposite direction when in 2003 he invested nearly twice as much over the next decade to help low-income seniors buy prescription drugs than Al Gore had proposed for the same purpose in the 2000 campaign. Why did Bush do this? Because he knows low-income seniors need the help—and because he also knows that in American politics, right-wing fantasies aside, such common-sense policies are where the votes are. As my Republican friend and frequent policy soulmate Pete Peterson wisely remarks about the radical right's "plan" to create a fiscal crisis, when have the American people in moments of crisis ever decided it is time for *less* government?

It is unclear whether President Bush understands or cares about the many unsustainable contradictions in his domestic and budget policies. Which means it is all the more important to revive what used to be called "Rockefeller Republicanism" to save the party and the country from the radical right's excesses. *The Two Percent Solution* speaks to these Republicans as well. Indeed, as I show in Chapter 4, the Two Percent agenda builds on many of Milton Friedman's ideas about how best to achieve equal opportunity and a decent minimum.

There are hopeful signs that the Moderate Republican as a breed is poised for a major comeback, despite being on the endangered species list in recent years. Arnold Schwarzenegger's election in California means the Golden State may offer a visible and attractive alternative to Washington's model of Republicanism in the next few years. Christine Todd Whitman, the former New Jersey governor who had a frustrating tenure as Bush's first Environmental Protection Agency chief, has a new book out as this paperback appears entitled *It's My Party Too: How the Radical Right Is Undermining America*. A large number of influential moderate Republicans actually voted for Kerry in 2004, disgusted by Bush's fiscal irresponsibility, his mismanagement of Iraq, and his divisive pandering to the hard right on social issues. It is no exaggeration to say that the renaissance of the Moderate Republican is one of the most important political tasks the country faces in

the next few years if the concerns at the heart of the Two Percent agenda are to be addressed.

One priority for these Republicans as they find their voice again is to expose their party's most corrosive public charades. I make this case with clean hands, having spoken at length about the way my fellow Democrats sometimes poison constructive debate. There is the Democrats' Social Security and Medicare demagoguery, for example. There is the liberal insistence that only government can be trusted to provide services directly—when it's perfectly possible (and often preferable) for government to fund a service's availability without delivering the service itself. And liberals too often act as if mandates on business are costless ways to get desired social results—when such mandates impose costs and unintended consequences that nearly always end up borne by employees.

But Republicans are serious sinners, too. The cardinal Republican sin is the party's ceaseless drumbeat for deeper tax cuts—when Republican leaders know full well that the baby boomers' retirement can't be funded with today's expected revenues, that further long-term tax cuts only deepen that hole, and that marginal federal tax rates for wealthier Americans near 40 percent are simply not an impediment to robust growth (as the 1990s proved). Republicans cry that money is never the answer to social problems—though what else they expect poor workers to use to buy health care, or poor school districts to use to attract better teachers, remains a mystery. Republicans shout that “big government” does little but waste money. Yet they know that *just seven programs make up 75 percent of federal spending: Social Security, Medicare, Medicaid, military pensions, civil service pensions, defense, and interest on the debt.* That's “big government.” Republicans aren't trying to cut a dime of it. Under George Bush they've pushed big increases in all of it. Bush himself will add trillions to the national debt via his reckless deficits in the next few years alone. And that's before you toss in everything from NASA to the national parks to the National Institutes of Health, not to mention the FBI, student loans, homeland security, and farm subsidies—all things Republicans support and which take up a goodly portion of the quarter on the federal dollar that's left. Finally, Republicans pretend that only the private

sector creates wealth—when they know that government investments in infrastructure, research and development, and education create the conditions that make wealth creation possible.

If Two Percent-style Republicans take up these matters and find their voice, they may just save the country.

But what if they don't get traction—because the stranglehold that Tom DeLay's side of the GOP now has on party machinery means that their otherwise organic revival is artificially blocked?

Step Up or Step Aside—Is a New Third Party Inevitable?

I wrote *The Two Percent Solution* in the hope that Democrats and Republicans might be persuaded to embrace a “fully funded Third Way”—an agenda that seriously pursued progressive goals in economically rational ways that could attract broad support. This is still my hope.

But it remains true that our two major political parties are organized around ideologies and interest groups that systematically ban common-sense, well-funded policies blending the best of liberal and conservative ideas. Suppose, for example, you look at the uninsured and think money is the answer (“liberal”), but you also think government should basically give people who need help the money to buy private coverage themselves (“conservative”)? What's your ideology? Suppose you see tens of thousands of low-paid, unqualified teachers in urban and rural classrooms and think money must be part of the answer (“liberal”), but you also think salary hikes should focus on the best teachers or those hardest to keep in the field (“conservative”)? What party do you join? Suppose, like most sensible souls, you think some rules and regulations are needed in this world (“liberal”), but not so much as to stifle innovation and growth (“conservative”)? If you're drawn to any of these notions, you're simply too subtle a citizen for what the political establishment says can be safely processed or communicated, or for what well-funded interest groups on both sides will allow their hired hands to embrace. But then what? What do we do if most of us would, in fact, find such common-sense ideas appealing,

and these ideas have the potential to move us forward, but our leaders won't talk about them for the reasons we've catalogued?

Many thoughtful politicians and officials privately told me as I researched this book that they believed there was little hope of changing today's tyranny of charades short of a galvanizing social explosion. The other possibility, they said, is that the American people become so frustrated that they "kick the bastards out" and start electing people willing to challenge the status quo. Can that happen?

People often ask me as I speak around the country what organizational infrastructure is in place, or needs to be, to move the book's ideas forward—a question I haven't answered in a satisfying way because my first hope has been that political leaders in both parties would find ways to adopt these ideas as their own. In the meantime, some readers have taken matters into their own hands: a number of groups formed to discuss the book's ideas across the country (some via www.meetup.com); others suggested a way to connect via my website (www.mattmilleronline.com) and several thousand folks have since signed up to get my column and stay in touch. Best of all, countless younger Americans have written to say Two Percent has changed the way they view the possibilities of politics, while also deepening their frustration with the status quo. There are other ways we might harness this collective energy—for example, by starting a group that would serve as a new kind of Common Cause, or even an AARP-style organization dedicated to a pragmatic yet ambitious problem-solving agenda. Such a membership organization, if large enough, could serve as a counterweight to the huge groups that wield such influence over national policy today.

But there's another possibility as well. The overriding (and depressing) truth in public life today is that neither major party has a political strategy—that is, a strategy for winning elections and acquiring power—that includes solving our biggest domestic problems. I don't believe this situation is sustainable. If both sides continue to play make-believe in the next few years while real problems fester, I believe it will create enough energy and frustration among enough leaders and citizens that a new "radically centrist" third-party movement will be born.

My guess is that it would feature something of what Ross Perot brought to public life in 1992, when he won nearly 20 percent of the vote, and thereby changed what the Clinton administration did on budget policy thereafter. Perot tapped a broad frustration with a two-party system that let problems like the deficit and the national debt spiral out of control. He respected citizens enough to believe they could understand the stakes, and when he rolled out his charts and graphs on TV, millions of them did. Today, on the eve of the boomers' retirement, our fiscal problems are worse than when Perot took up the cause back then—and we've had thirteen more years of stalling on issues like the uninsured, the working poor, and schools for poor children. Whether such a movement would find its agenda co-opted by the major parties (as is usually the case in U.S. history) or whether it would become an enduring force for change is impossible to know.

But the one thing that is clear is that such a development is feasible. The U.S. economy generates more than an adequate supply of high-net-worth patriots who could provide the money (and possibly even the candidates) around which such an effort might be built. As the 2004 exit polls showed, a clear plurality of Americans identify themselves not as liberals (21 percent) or conservatives (34 percent) but as moderates (45 percent). As America's fiscal collision with the boomers' retirement nears, yet so many problems remain unaddressed, the idea that this constituency would continue to find little public expression for its aspirations or its temperament or its pragmatism strikes me as implausible. Something has to give. My intuition is that if Washington Republicans continue to veer right, and Washington Democrats find themselves trapped in a "reactionary liberalism" unable to embrace new ideas, at some point a critical mass of leaders on both sides will start to think (and *should* start to think) about a new force that can move the nation toward real answers.

When they do, they'll quickly discover there is a constituency out there waiting to be summoned. They'll discover an army of young people—who have the most to lose from today's bipartisan charades—who can be taught how our inaction robs their future, and who are filled with too much energy and idealism to know what "can't be done." They'll find a national press corps that needs an "official"

third force to legitimize a style of news coverage that exposes the hoax and points toward common-sense solutions. And when all that happens, watch out.

MM
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