

URBAN INSTITUTE-BROOKINGS INSTITUTION TAX POLICY CENTER

and

OPPORTUNITY 08

A SPEECH ON THE ECONOMY, OPPORTUNITY, AND TAX POLICY

WITH

SENATOR BARACK OBAMA (D-ILL.)

Washington, D.C.

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P R O C E E D I N G S

MR. GALE: Good afternoon, everyone. My name's Bill Gale. I'm Co-Director of the Tax Policy Center. I also have the honor of serving as the VP of the Brookings Institution. I'd like to welcome you to this afternoon's speech by our distinguished visitor, Senator Obama.

Before turning the stage over to the senator, I wanted to say a couple of words about each of the organizations that are hosting his event. The Tax Policy Center many of you know. We're a joint venture of the Urban Institute and the Brookings Institution. We are idealists; we are devoted to making the analysis of the tax policy -- of the tax system informative, accessible, timely, useful, and sometimes even fun.

Our goal is pretty simple. We want a tax system that is simple, fair, conducive to the economy, and fiscally sound. We operate under the intrepid leadership of Len Burman, who is over here, a Senior Fellow at the Urban Institute. Gene Sturley at Urban and I also play some leadership roles.

The other organization hosting this event is called Opportunity '08. That's a Brookings initiative that highlights key issues that face the nation now and that will face the next person to sit in the White House. Opportunity '08 seeks to engage the media and the public in discussion and the best way to address those

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issues.

It probably goes without saying, but I'll say it anyway, both organizations and their parent think tanks are nonpartisan. We don't endorse particular candidates or parties, but we are delighted to offer a forum for candidates to speak out on issues of the day, and we hope to hold many similar events in the coming months.

In the spirit, I have to say we are delighted to have Senator Obama with us this afternoon. The senator is truly a man who does not really need an introduction. Most of you know about his rise from the Illinois state senate to the United States Senate. Most of you know that he has authored two widely read and highly acclaimed books, and most of you probably recall his exceptional speech at the 2004 Democratic Convention.

Since then Senator Obama has worked with Republican Senator Coburn to draft and enact a law with the following title: The Federal Funding Accountability and Transparency Act. President Bush signed this measure into law last September. It brings transparency to federal spending by creating a user-friendly website where people can go and look and see how government is spending its funds. The senator also cosponsored The Working Family Child Assistance Act, which boosted tax subsidies to low-income working families.

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The afternoon the senator will speak on his proposals to reform the tax system. Personally, as a certified tax geek I can't think of a more exciting or stimulating topic, and I ask you all to welcoming me in the honor of welcoming Senator Obama here.

(Applause)

SENATOR OBAMA: Thank you. Thank you. Thank you so much, thank you. Thank you. Well, I want to thank Bill Gale of Brookings for hosting us, along with Melissa Skolfield. You guys have done terrific work. I want to thank Len Burman as well at the Tax Policy Center, and I want to thank all of you for taking the time to come listen to a speech about taxes on a beautiful day in September.

You know, yesterday I spoke about the future of the American economy at the NASDAQ, and in many ways NASDAQ is a symbol of the new economy that is taking hold. The wealth created the booms and bubbles, the technology that's helping to drive growth, and the interconnectedness that now spans the globe. And it's no secret that a fundamental transformation of our economy is taking place in books and on balance sheets, at policy institutes, and around kitchen tables. People are trying to make sense of where the shift -- where the swift and strong currents of globalization are taking us. And what we do know is that

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Americans are living and working in a rapidly changing economic reality.

This is not the first time this has happened. Time and again the American economy has undergone upheaval from slave to free, from agriculture to industry, from peace to wartime, and from wartime to peace again. And time and again the American economy has emerged stronger. The one constant has been the advancement of individual opportunity. There are few principles more basic to our country, and there's none more basic to our economy. We believe that there is a place in the American economy for every American's dream, and we know that when we expend that dream of opportunity to more Americans, all of us gain.

Americans also know that opportunity doesn't come easy; you have to work for it. And here I think of my father-in-law who's now passed away, Frazier Robinson. He raised his two children with his wife Marian in 1960 Chicago. And they faced what other American families faced at the time, both hidden and overt forms of racism that limited their efforts to get ahead.

They also faced an additional obstacle because at age 30 Frazier was diagnosed with multiple sclerosis. And yet every day of his life, even when he had to leave an hour earlier in the morning and rely on a walker to get him there, he went to work at the local water filtration plant while Marian stayed home with the children. And on that single salary Frazier Robinson provided for his family

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sending my wife Michelle and her brother Craig to some of the better schools in Chicago and, ultimately, sending them off to Princeton, Harvard, and University of Chicago.

Now, this is an American story that plays out in millions of families each and every day. It's a story that's shared by the caregiver who's up before dawn, and the teacher who never misses the bell, by the trader who works late, and the janitor on the night shift. It's the story of a society that values work and a people who work to create a better future for their families.

This story could not exist without a basic social compact in this country, and that compact says that if you work hard, your work will be rewarded; that everybody has an opportunity to make a decent living, to raise a family, to give their children the best chance of success, and to look forward to a secure retirement. The people like Frazier and Marian Robinson can give their children the chance to dream bigger and to reach new horizons.

The problem that we have is that social compact is starting to crumble, it's starting to erode. In our new economy there is no shortage of new wealth, but wages are not keeping pace; workers are more vulnerable to job loss and more worried about retirement. Those Americans fortunate enough to have health care are paying more for it. Health care premiums have risen nearly 90 percent in

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the last six years.

Americans are facing deeper personal debt from filling up the gas tank to paying for college education. Everything seems to cost more, and this is not just happening by chance. It's not just something we can chalk up to temporary shocks; it's happening in part because of the choices we are making and the way we are making those choices. It's happening because we've gone too far from being a country where we're all in this together to a country where everyone is on their own.

Today I'm going to focus on one aspect of our economic policy where we need to make different choices, because nowhere is the shift in our priorities more evident than in our tax policies. Instead of working to find ways to relieve the burden on working people and the middle class, we've developed creative ways to remove the burden from the well-off. Instead of having all of us pay our fair share, we've got over \$1 trillion worth of loopholes in the corporate tax codes. This isn't the invisible hand of the market at work; it's the successful work of special interests.

For decades we've seen successful strategies to ride anti-tax sentiment in this country towards tax cuts that favor wealth, not work. And for decades we've seen the gaps in wealth in this country go wide, while the cost to working people are greater. We've got a shift in our tax values that

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disproportionately benefits the wealthiest Americans, corporate carve-outs that serve no national purpose, tax breaks that allow companies to stash their profits overseas, a government that's paralyzed when dealing with off-shore tax haven countries, an overload of tax code that's too complicated for ordinary folks to understand but just complicated enough to work with someone who knows how to work the system.

When big business doesn't like something in the tax code, they can hire a lobbyist to get it changed. But most working people can't afford a high-priced lobbyist. Instead of honoring that core American value, opportunity for all, we've had a system in Washington where our laws and regulations have carved out opportunities for the few.

Now, the numbers don't lie. At a time when income inequality is growing sharper, the Bush tax cuts gave the wealthiest one percent of Americans a tax cut that was twice as large as the middle class. At a time when Americans are working harder than ever, we are taxing income from work at nearly twice the levels that we're taxing gains for investors. If you talk about this in polite society, sooner or later you'll get accused of waging class warfare, and it's distasteful to point out that some CEOs made more in 10 minutes than a worker makes in 10 months. Or, as my friend Warren Buffet put it to me, if there's class warfare going on in America, then my class is winning.

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Now, what Warren Buffet knows is what all Americans have to remember: to get through these uncertain times, we have to recognize that we all have a stake in one another's success. When folks are hurting out there on Main Street, it's not good for Wall Street. When the changes in our economy are leaving too many people behind, the competitiveness of our country risks falling behind. When that dream of opportunity is denied to too many Americans, then ultimately that pain has a way of prickling us.

We welcome success stories here in America. We admire those who have climbed to the top of the ladder. We just need to be sure that the ladder doesn't get taken away from the rest of us. We want a system based on fairness, not special favors. To steer a course through the chains that's taking hold, we have to hold tight to that core principle that our economy must advance opportunity for all Americans.

My own experience over two decades tells me that when you give people a chance at that opportunity they will take it. That's what I found as a community organizer on the South Side of Chicago where we set up job training programs and after school programs, and counseling programs to bring hope to places that have been hurt by global change.

That's what I found as a state senator in Illinois when we created the state earned-income tax credit so we could put \$100 million worth of tax cuts in the

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pockets of working families that really needed it. That's what I've been focused on as a United States senator, because I've worked to expand the job tax credit to include children and minimum wage families and to close loopholes that shift the tax burden onto working people.

And that's what I'll do as president, because when it comes to our economy, the American people are not the problem, they are the answer. I will restore simplicity to the tax code and fairness for the American middle class. To stand up to special interest carve-outs, I'll end the preferential treatment that's built into our tax code by eliminating corporate loopholes and tax breaks. We shouldn't be distorting our tax code and our market to benefit a few powerful interests. We should be insisting that everyone pays their fair share, and when I'm president, they will.

It's also time to shed some sunlight not only on companies that abuse the tax code but also on the secretive offshore tax statements that shelter them. We create a list of countries where tax evaders hide their income and cost Americans untold billions of dollars every year. We'll lead the international community to new standards of information-sharing. And we'll penalize companies and individuals who use those havens and illegally evade their tax obligations.

If we're going to keep that social compact for a new century, we need

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a tax code that's fair, a tax code that will award work and advance opportunity. Every American who is ready to work for an American dream should be able to trust the government that works for them. I will keep that trust by cutting taxes for working people, cutting taxes for homeowners, cutting taxes for seniors, and by simplifying tax filing for middle class Americans.

First, I'll give a tax cut to working people. The American people work longer and harder than the people of any other wealthy nation in the world, but their hours are getting longer and their wages aren't getting any higher. Their costs are going up, but their economic security is going down. When a single mom gets her paycheck, that check gets taxed. When she goes to buy her groceries, that purchase gets taxed. When she reaches her retirement, her Social Security benefits get taxed. Meanwhile, her boss's investments get taxed at a lower rate and the corporation she works for has all kinds of loopholes built into the tax code because they have got lobbyists who are sticking up for their interests.

It is time for that to change. It is time for Americans to have a president in the Oval Office who makes decisions based on their interests, not the special interests. Let's not forget that even in this era of economic change, our

wealth as a nation remains founded on work. I'd reward work by providing an income tax cut of up to \$500 per person or \$1,000 for each working family to offset the payroll tax that they are already paying. At a time when confidence in the American economy is unsteady, this will give working Americans and middle-class Americans a break and help them deal with the rising costs of energy, education, and saving for retirement. Under my plan, 150 million Americans and their families will get a tax cut and because this credit would be greater than their income tax bill, my proposal would effectively eliminate all income taxes for 10 million working Americans.

In so many working families, two parents are working full-time trying to bring up their children and trying to keep up with so many costs that keep growing while their paychecks don't. This tax credit will strengthen working families by increasing the money in their pockets and reducing the worry that hangs over so many Americans. And this tax credit will be a particular boost to single working moms who put in the hours to provide the best opportunities possible for their children but struggle to stretch a paycheck that can't cover their growing needs.

The second thing I will do to ease the burden on working middle-class families is providing a universal homeowner's tax credit. If work is how most

Americans seek their dream, a home is how many families realize it. A home is a source of stability, a building block for communities, and the most valuable thing that most middle-class folks will own. But as has been made painfully clear through the subprime crisis, that source of stability can quickly become the source of economic insecurity. Too many Americans are struggling under the weight of their mortgages. Homeowners need a break. So today we have a mortgage interest deduction but it only goes to people who itemize on their taxes. Like so much of our tax code, this tilts the scales toward the well-off. Only a third of homeowners take advantage of this credit. So I will create a mortgage interest credit so that both itemizers and nonitemizers get a break. This will immediately benefit 10 million homeowners in America. The vast majority of these folks will be making under \$50,000 per year and they will be getting a break of 10 percent of their mortgage interest rate. For most middle-class families, this will add up to about \$500 each year. This credit will also extend a hand to many millions of Americans who are stuck in the subprime crisis by giving them some breathing room to refinance or sell their home.

The third thing I will do is provide a progressive tax cut for America's seniors. Since the New Deal we have had a basic understanding in

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America that if you work hard and pay into the system, you have earned the right to a secure retirement. But even though they have held up their end of the bargain, many seniors are still struggling to keep pace with costs, and as so many Americans know, their worry becomes an entire family's worry. This strain has been greater since 1993 when taxes on Social Security benefits were raised. Millions of seniors saw their net benefits go down. They also had to take on the added strain and sometimes added cost of filing a complicated tax return. It is time to give America's seniors a break, so I will give retired folks the same kind of relief I will offer to working people. When I am president we will work to see that no retiree making less than \$50,000 each year has to pay income tax. This will eliminate income taxes for about 7 million Americans at a savings rate of roughly \$1,400 each year, and 22 million seniors won't even have to file a return and hire an extensive tax preparer.

The final part of my plan will be simplifying the process of filing a tax return for all Americans. The tax code has become far too complex. Deductions and exemptions are built into the system, but ordinary people don't have the time to figure them out without going to an expert preparer--yet another cost at tax time. In 2004 the IRS estimated that it took 28 hours for an individual to complete per tax filing. According to the IRS Nation Taxpayer's Advocate, the most serious problem

facing taxpayers today is the complexity of the Internal Revenue Code. This past year *USA Today* has five different professionals add up the tax bill for one working family and they all got different answers. It is time to cut through the complexity. When I am President we will put in place a system where 40 million Americans with a job and a bank account who take the standard deduction can do their taxes in less than 5 minutes. The government already collects wage and bank account information so there is no reason the IRS can't send Americans prefiled tax forms to verify. This means no more worry, no more waste of time, no more extra expense for a tax preparer. Making this change would save Americans more than \$2 billion in tax preparer fees, more than 200 million hours of work, and an incalculable amount of headache and heartburn.

All of these proposals are about making America's tax code simpler and making it work better for working Americans. As we simplify the tax code so that it works for the middle class, we will have to address shifting costs. Americans are tired of an attitude toward taxing and spending in Washington that is leaving a legacy of debt to our children and our grandchildren. So to ensure that we are fiscally responsible, we will gain revenue by shutting down corporate loopholes and tax havens. We will also turn the page on an approach that gives repeated tax cuts

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to the wealthiest 1 percent of Americans even though they don't need them and did not ask for them. We have lost the balance between work and wealth. I will close the carried interest loophole. I will adjust the top dividend capital gains rate to something closer to but no greater than the rates Ronald Reagan set in 1986. As we make these changes, we will be sure to encourage growth and innovation so we will exempt start-up companies and small businesses from capital gains to give them an added boost because when more Americans tap that well of opportunity, all of us are better off.

The truth is, most Americans aren't asking for a lot. They don't need overseas tax shelters, they don't need a long list of loopholes. All they want is a fair shake, and they could stand a break because most Americans have simple dreams: a job, a place to raise their families, a secure retirement, a chance to create opportunities for their kids that might extend a little further than their own. After all, the wealth of the nation is rooted in the work of our people. In his first State of the Union message to Congress, Abraham Lincoln laid out a core principle; capital is only the fruit of labor and could never have existed if labor had not first existed. Labor is the superior of capital and deserves much the higher consideration. It is a simple proposition that the wealth we earn comes from the work that we do. It is a

proposition that has lived day in and day out in the homes of millions of working Americans, the steady pursuit of simple dreams. The American economy is the tally of all those dreams. Now at a time of rising costs and rising uncertainty, it is time for policies from Washington to put a little wind at the backs of the American people. Now is the time for us to come together as a nation behind a new compact for the 21st century, one that gives the American people a lift so that they can lift up this country anew. Thank you very much, everybody. Thank you.

(Applause)

SENATOR OBAMA: I believe that there is an overflow room and I'm not sure that the mike was working, so I've got to go pay them some attention and give them some love. But I thank all of you for coming, and we will be distributing fact sheets and people who have additional questions I think can get more details as we go further. Thank you very much for attending, everybody. Thank you.

(Applause)

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