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Commentary: Congressional Budget Plan a Major Step Toward Costly, Ill-Advised Tax Cuts

By Robert Greenstein

The House's adoption today of the Senate-passed budget resolution sets in motion a fast-track process to enact a tax bill that would drive up budget deficits by $1.5 trillion over the coming decade. This contradicts congressional Republican leaders' repeated promises over a number of months that their tax plan would be revenue neutral and not add to the deficit. In February, House Speaker Paul Ryan said, "we're planning revenue-neutral tax reform, which means you have to take away loopholes and special interest deductions if you're going to lower tax rates." In May, Senate Majority Leader Mitch McConnell similarly declared that tax reform "will have to be revenue neutral." Even the budget that the House passed in July required the forthcoming tax bill to be deficit neutral. But the Senate opened the floodgates to a big deficit-increasing tax bill, and the House has now followed.

Big, deficit-increasing tax cuts would have damaging consequences. The congressional budget plan calls for deep cuts in many important programs largely to address *existing* deficits. There should be little doubt that if the tax cuts are enacted, many of their proponents will, in future years, cite the resulting *increases* in deficits in arguing for sharp budgetary cutbacks. And low- and middle-income families would almost certainly bear much of the weight of such budget cuts, even though they would receive little benefit from the tax cuts.

Tax Plan Would Swell Deficits

The Trump Administration and some congressional Republicans contend that the tax cuts would generate so much added economic growth that they would pay for themselves, filling the $1.5-trillion deficit hole the tax cuts would create with a deluge of new revenues. In reality, there is no credible evidence that large, deficit-increasing tax cuts pay for themselves. The 1981 and 2001 tax cuts did not do so. Nor, for that matter, did Kansas's 2012 tax cuts, which the state's Republican legislature this year largely reversed after the tax cuts led to massive budget problems while failing to boost the state economy.[1]

[1] CBPP, "GOP Tax Plans Would Emulate Failed Kansas Experiment," https://www.cbpp.org/research/federal-tax/gop-tax-plans-would-emulate-failed-kansas-experiment.

A few Republican lawmakers have been openly skeptical of claims that the tax cuts would pay for themselves. Senator Bob Corker of Tennessee has said he won't support a tax plan that increases the deficit after its macroeconomic effects are taken into account using "reasonable" estimates. Senator Todd Young of Indiana has expressed concern that assuming unreasonable levels of economic growth is not fiscally responsible. But more need to speak up — and to act on these convictions.

Among senators and House members who should be particularly skeptical are senior members who supported the 2001 Bush tax cuts. Their support for those tax cuts rested in part on the extremely bright budget outlook at that time: In 2001, the federal government was running a budget surplus, the federal debt was relatively low and shrinking, and large surpluses were forecast for years to come. Today's fiscal outlook is far less sanguine. And that's in part because of the Bush-era tax cuts themselves, which are responsible for an estimated *one-third* of the current federal debt.[2]

Looking forward, the nation faces major long-term fiscal challenges, which stem from the imbalance between the tax revenues projected under current law and the projected level of federal expenditures, which will rise in coming decades as the aging of the baby-boom generation raises federal health and retirement costs.[3] Policymakers risk compounding these fiscal challenges if they enact big tax cuts while failing to offset the cost by closing unproductive loopholes and inefficient tax preferences (or by raising other sources of revenue, such as through a carbon or other energy tax).

Moreover, the budgetary damage from unpaid-for tax cuts could substantially exceed the $1.5 trillion allowed under the terms of the budget resolution, if the tax-cut package includes gimmicks masking its true cost. The 2001 tax cuts provide another cautionary lesson here: as then-Ways and Means Chairman Bill Thomas stated at the time, that legislation was designed to jam "a pound and a half of sugar into a one-pound bag." After the gimmicks — such as phasing in various tax cuts — had faded and the tax cuts were fully in effect, the Bush tax cuts grew in cost to roughly 2 percent of the economy, substantially larger than the cost estimate for the tax cuts' first ten years had shown.

Republican tax writers may now be heading down the same dangerous path. Their tax-cut wish list is far larger than the already indefensible $1.5 trillion in deficit-increasing tax cuts their budget plan allows, and they have shown little appetite for closing inefficient tax breaks or taking away low-priority tax benefits to pay for the overage.

Swollen Deficits Create Excuse for Later Program Cuts

Ballooning the deficit matters. If deficits continually rise faster than the economy grows, that is likely to ultimately have adverse economic consequences. Moreover, one sure cost of rising deficits and debt is that the Treasury must then use more of its resources to pay interest on the debt, leaving less for other vital governmental functions. If these tax cuts become law, many of the same policymakers and interests that pushed for the tax cuts are likely to decry the elevated levels of

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[2] Emily Horton, "The Legacy of the 2001 and 2003 "Bush" Tax Cuts," CBPP, updated October 23, 2017, https://www.cbpp.org/research/federal-tax/the-legacy-of-the-2001-and-2003-bush-tax-cuts.

[3] Paul N. Van de Water, "Federal Spending and Revenues Will Need to Grow in Coming Years, Not Shrink," CBPP, September 6, 2017, https://www.cbpp.org/research/federal-budget/federal-spending-and-revenues-will-need-to-grow-in-coming-years-not-shrink.

deficits and debt, declare federal programs to be the culprit, and call for deep budget cuts — presumably the same kinds of cuts they have outlined in their just-passed budget plan — while not putting forward any proposals to raise revenues.

The budget resolution that Congress adopted this month calls for *$5.8 trillion* in program cuts over the coming decade. This includes $1.8 trillion in cuts in Medicaid, Medicare, and other health care entitlement programs and $800 billion in cuts *below* the already austere sequestration levels in "non-defense discretionary" programs, the part of the budget that includes education and training, transportation, scientific and medical research, protecting the food and water supply, child care, low-income housing assistance, services for frail elderly people, and much more.

Such cuts would necessarily fall most heavily on families and individuals with low or modest incomes. Moreover, many of the families that would be hit by such budget cuts would gain little if anything from the GOP tax plan.

Indeed, *Roll Call* reports today that it "interviewed half a dozen House Budget Committee members, as well as a few other fiscal hawks in the GOP conference, and they all said they anticipate mandatory spending cuts [i.e., cuts in entitlement programs] being a priority for the fiscal 2019 budget reconciliation process." Some of those interviewed were not shy about their two-step strategy. "We dream those big dreams here," Rep. Rob Woodall said. "I'll take half of that dream in tax reform, and then I'll come back next spring for the other half."[4]

The GOP Tax Plan's Sharp Upward Tilt

The tax plan that congressional leaders and the Administration released last month would primarily benefit those at the top of the economic ladder, while doing little or nothing to help most of those who are struggling — the people President Trump promised to help during his campaign. The tax plan would shower 80 percent of its tax-cut benefits on the top 1 percent of households by 2027, when most of the plan's provisions would be fully in effect, the Tax Policy Center estimates. In addition, the plan's Child Tax Credit expansion leaves out at least 16 million children in low- and modest-income working families, even though these are the families that most need help making ends meet and providing adequately for their children to give them a better chance to succeed in school and beyond.[5]

In response, the Administration argues that its cut in the corporate tax rate would greatly boost the wages of workers because they, not shareholders, bear most of the burden of the corporate income tax. The White House Council of Economic Advisers (CEA) claims the proposed corporate rate cut would raise the average household's income by $4,000 to $9,000. But these estimates simply aren't credible. They assume that households' total income gain from the corporate rate cut would be *2.75 to 5.5 times the size of the total tax cut,* as former CEA chair Jason Furman has explained — an

[4] Lindsey McPherson, "On Debt Reduction, GOP Says Wait Till Next Year," *Roll Call,* October 26, 2017, http://www.rollcall.com/news/politics/on-debt-reduction-republicans-say-wait-till-next-year?utm_content=buffer3514d&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer.

[5] Robert Greenstein *et al.,* "Child Tax Credit Increases in GOP Tax Plan Exclude Millions of Children in Low-Income Working Families," CBPP, October 25, 2017, https://www.cbpp.org/research/federal-tax/child-tax-credit-increases-in-gop-tax-plan-exclude-millions-of-children-in-low.

assumption that's been met with incredulity.[6] The mainstream economic consensus, by contrast, is that workers would receive only a modest share of the corporate rate cut, with the bulk of the benefits flowing to CEOs and affluent investors.[7]

Furthermore, many of the same low- and middle-income families that likely would gain little or nothing from the proposed tax cuts almost surely would bear a large share of the burden when Congress subsequently cut health, education, and/or other areas to help address the enlarged deficits that the tax cuts had fueled.

Due to such concerns, especially with regard to who would benefit from the tax cuts, several Republican senators offered hortatory amendments to the budget plan on the Senate floor, which then passed. Senator Marco Rubio offered an amendment advising that the tax cuts should help "working American families." Senator Susan Collins offered an amendment calling for tax cuts for small business but with "provisions to prevent upper-income taxpayers from sheltering income from taxation at the appropriate rate," an apparent reference to the provision in GOP leaders' tax-cut framework that would enable many wealthy individuals to reorganize themselves or their firms into "pass-through entities" and thereby get a huge tax cut.

But meeting tests such as these would require fundamentally altering the tax plan, not tinkering around the edges. We hope that senators who voted for these amendments will follow up by insisting on such changes as the tax legislation is written. They should withhold support for any forthcoming tax bill that doesn't meet these tests or that swells budget deficits.

Many members of Congress who have raised concerns about tax cuts increasing the deficit or primarily enriching the most well-off nonetheless voted for the budget resolution. That document is, however, but the first step in this process; it doesn't change tax policy itself. The most consequential decisions will come when lawmakers consider the tax bill, starting next month. We can only hope that lawmakers who raised concerns about the deficit-increasing or skewed-to-the-top nature of GOP leaders' tax framework will act on these principles when the tax legislation moves forward, and aren't swayed by fanciful promises that the tax cuts will magically ignite tremendous economic growth or substantially trickle down to ordinary working families.

[6] Jason Furman, "No, the GOP Tax Plan Won't Give You a $9,000 Raise," *Wall Street Journal,* October 22, 2017, https://www.wsj.com/articles/no-the-gop-tax-plan-wont-give-you-a-9-000-raise-1508702509.

[7] Chye-Ching Huang and Brandon DeBot, "Corporate Tax Cuts Skew to Shareholders, Not Workers as Administration Claims," CBPP, updated August 16, 2017, https://www.cbpp.org/research/federal-tax/corporate-tax-cuts-skew-to-shareholders-and-ceos-not-workers-as-administration.