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CBPP STATEMENT

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Greenstein: Senate GOP Budget's Regressive Tax Cuts Would Swell Deficits, Likely Lead to Budget Cuts Hitting Most Americans

Senate Budget Committee Chair Mike Enzi's 2018 budget resolution would grease the legislative wheels for $1.5 trillion in tax cuts that are very heavily skewed toward the most well-off, as a new Tax Policy Center (TPC) analysis shows. The TPC study, released this afternoon, shows that despite claims to the contrary, the tax cut proposal that the "Big Six" rolled out this week would do little for working families with modest incomes or middle-income families. In contrast, the top 1 percent of households would receive 80 percent of the tax cuts by 2027 and the top *one-tenth of 1 percent* of households would get 40 percent of the tax cuts, or over $1 million apiece that year, on average.

The $1.5 trillion in tax cuts over ten years would not be offset; instead, they would be deficit-financed. That, in turn, would intensify pressure for substantial budget cuts down the road in programs ranging from health care and education to transportation and scientific research, with likely adverse consequences for lower- and middle-income families as well as for long-term growth.

Millions of Americans would likely end up net losers under this fiscal-policy agenda. The TPC analysis finds that the bottom *80 percent* of households would receive only *13 percent* of the tax cut in 2027. The average annual tax cuts for households in the bottom four quintiles would, by 2027, be just $50, $230, $420, and $450, respectively — compared to $207,000 for those in the top 1 percent and over $1 million for the top 0.1 percent (those with incomes exceeding $5 million a year in 2017 dollars). Most low- and middle-income households would likely lose more from the budget cuts ultimately advanced to address the enlarged deficits than they would gain from the tax cuts.

The budget plan's Robin-Hood-in-reverse features don't stop there. The plan is structured so Congress can use the fast-track budget reconciliation process to provide a tax cut of *more than* $1.5 trillion, so long as it offsets the tax cuts in excess of that level by cuts in Medicaid, Medicare, or other programs under the Senate Finance Committee's jurisdiction. That could well occur; TPC estimates that the Big Six tax framework would lose $2.4 trillion in revenue over the coming decade (and more after that). Under the Enzi budget plan, Congress could even resurrect proposals to repeal the Affordable Care Act (ACA) and attach them to the tax reconciliation bill if GOP leaders found a political opening to do so.

Senate Plan Broadly Similar to Trump and House Budget Plans

The Senate budget plan is broadly similar to the Trump and House budget plans. All three combine tax cuts for those at the top with cuts in a wide array of programs, including assistance for families struggling to get by, and in a broad swath of basic government functions. The overall result would almost certainly be more poverty and inequality.

The Senate plan also is apparently even less fiscally responsible than the House budget plan. Under the House plan (and the Trump budget unveiled in May), tax reform proposals supposedly wouldn't increase the deficit. The Senate plan, by contrast, opens a candy store for tax cuts, departing from repeated assurances by Majority Leader Mitch McConnell and other Senate Republican leaders over the past year that their tax-cut package wouldn't swell the deficit. (In May, for example, McConnell declared that tax reform "will have to be revenue neutral.")

Some Senate leaders and the White House argue that their tax cuts would not add to deficits because they would spur enough additional economic growth to pay for themselves. That's the same kind of snake oil that tax-cutters have been selling since the 1980s. The historical record — both nationally following the Reagan and George W. Bush tax cuts and in states like Kansas following its own tax-cut experiment — has thoroughly debunked those claims.

In Kansas, Governor Sam Brownback insisted his deep cuts would unleash an economic boom in the state. The reality was far different: in the years following the tax cuts, the state's economic and job growth lagged behind that for the nation and most neighboring states. To make up for the massive revenue loss, Kansas drained its operating reserves, raised the state sales tax, closed schools early in some districts, and cut other services. Two bond rating agencies downgraded the state's bonds, and the state Supreme Court ruled that school funding levels were unconstitutionally low. The problems became so great that earlier this year, the Kansas legislature — under Republican control — repealed most of the tax cuts and overrode Brownback's veto of that measure.

As analyst Bruce Bartlett, who played a significant role in past decades in promoting the idea that tax cuts can ignite robust growth and served both Presidents Reagan and George H.W. Bush, wrote this week of the claim that tax cuts pay for themselves: "That's wishful thinking. So is most Republican rhetoric around tax cutting. In reality, there's no evidence that a tax cut now would spur growth."

The Plan's Reconciliation Instructions

Under the budget plan unveiled today, the Senate Finance Committee would receive a reconciliation instruction to produce legislation that would "increase the deficit by not more than $1,500,000,000,000" over ten years. This means that the Finance Committee could cut taxes by more than $1.5 trillion as long as it cut entitlement programs under its jurisdiction — like Medicaid, Medicare, and Supplemental Security Income for poor seniors and people with disabilities — sufficiently to bring the net cost down to $1.5 trillion.

This feature of the reconciliation instruction would also, as noted, give the Finance Committee leeway to include measures in its reconciliation bill to pursue repeal of the ACA, if GOP leaders concluded they could get 50 votes for the combined package on the Senate floor. Senate GOP leaders currently appear more inclined to make another run at ACA repeal early in 2018, *after* completing work on the tax-cut bill. But the Senate budget plan's structure would enable them to alter that strategy if the Senate landscape changes.

Plan Also Calls for Deep Cuts in Health Care, Other Entitlements, and Non-Defense Discretionary Programs

In addition to its reconciliation instructions, the Senate budget plan calls for $4 trillion over the coming decade in cuts to entitlement programs, including programs providing health care and other basic assistance to families with modest incomes. The plan also calls for $632 billion in cuts over the 2019-2027 period to non-defense discretionary programs, which include investments in areas like education, job training, and scientific research that can support economic growth, as well a broad swath of public services such as law enforcement, environmental protection, infrastructure, weather forecasting, national parks, and Social Security field office operations. The budget calls for these austerity cuts, which would affect virtually all Americans, even as its tax cuts would dig the deficit hole deeper.

Most of the proposed budget cuts likely won't be enacted this year. But they reflect policies that Senate Republican leaders favor and may pursue at a later point after enacting their tax cuts.

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