Correction Please

Why So Much Red Ink? Blame Overspending, Not Cutting Taxes

Item: The left-wing Washington Post in its print version for September 29, 2018, reported that "House Republicans pushed through a new round of tax cuts Friday that would permanently extend the cuts for individuals in President Trump's signature law that are set to expire within a decade. During debate over the tax law last year, Democrats frequently attacked Republicans because the legislation contained permanent rate reductions for corporations but temporary ones for individuals."

The Post *went on to say: "Democrats termed the legislation another 'tax scam' that primarily helps the wealthy while adding even more to the nation's dangerously large $21 trillion debt. And Democrats warned repeatedly that the legislation would threaten Social Security and Medicare, claiming the GOP would ultimately seek to cut those programs to pay down the debt — a charge Republicans dismissed as scare tactics."*

Item: *A Bloomberg article dated September 30 pointed out that "Democrats opposed the [Trump administration's] tax bill, and [Democratic] party leaders have deplored Trump's fiscal recklessness."*

The article also claimed: "In recent decades, Democrats have tried to balance the books when they've launched major initiatives — partly because they've needed Republican votes to pass legislation…. Party bosses are still in that camp. Hillary Clinton said a large national debt threatens 'grave harm,' and House Minority Leader Nancy Pelosi has called America's debt level 'immoral.'"

Item: *An article in the* New York Times *for July 25 said: "As the tax bill was debated last year, the Trump administration argued that losses from the cuts would be offset by increased economic growth. Companies would use money that had previously gone to taxes, the argument went, to invest in their businesses and workers, giving the government a smaller slice — but out of a bigger pie. But the drop in tax payments has come as the American economy is already the healthiest it has been since the crisis, raising questions about whether the deficit could balloon further if growth begins to slow."*

Item: *An article in the October 4* The Hill, *a Capitol Hill newspaper, reported in part: "Since Trump took office, the budget deficit has exploded, largely as the result of the GOP tax bill signed into law last December."*

Item: *In his Twitter page on September 22, California Democrat Representative Alan Lowenthal charged: "@GOP has racked up record deficits with reckless tax cuts for the top 1%. They've attacked healthcare and support for the middle class. Now, they're threatening entitlement cuts in the next year.*

Make no mistake, we MUST stop them."

Correction: The Congress is supposed to represent the people, right? Well, here's a question for our esteemed representatives: Why is it so difficult to cut down on your expenditures? After all, it is because of your excessive spending that we have to cut down on ours.

Budget deficits do matter, and the rising National Debt matters even more. But we didn't pile up the mountain of red ink because we cut taxes either too much or too often; rather, our fiscal plight is a function of government *overspending*.

Of course, simple math suggests that cutting taxes and *overspending* is going to throw the budget even more out of whack. But that is not a good excuse against cutting taxes; it is, however, yet another reason for fiscal prudence. It is cruel to pretend that the best way to get our children and grandchildren to learn the value of a dollar is to force them to pay for our debts.

There is, to be sure, hypocrisy and politics involved when one party professes frugality when not in the majority, only to squander wildly when in charge of the purse strings. And it is convenient, for the profligate, to have one major party emphasizing the backing of "domestic" programs while the other tends to be for "defense" — only to "compromise" by agreeing to fund both, with our money.

Posturing notwithstanding, there is no law against slicing taxes *and* deficits — not that you'd know that by listening to the media.

Not all media outlets were willingly blind. The folks at *Investor's Business Daily* were more clear-eyed in their observations. *IBD* commented this spring that the Congressional Budget Office (while its projections are frequently inaccurate) did include, albeit buried within an appendix of its updated budget report, a "tacit admission that it vastly overestimated the cost of the Trump tax cuts."

The CBO — before one took into account any resultant economic growth — said that the Trump tax cuts would reduce (from 2018 to 2027) federal revenues by $1.69 trillion. But, as the IBD's editors put it, the government budgeteers then went on to say

that higher rate of GDP growth will produce $1.1 trillion in new revenues. In other words, 65% of the tax cuts are paid for by extra economic growth.

That faster growth will also reduce federal entitlement spending keyed to the economy — unemployment insurance, food stamps, welfare and the like — by $150 billion, the CBO says.

If you subtract that from the cost of the tax cuts, the net cost drops to $440 billion [over 10 years].

This is what we and other backers of the tax cuts had insisted all along. Not that tax cuts would entirely pay for themselves. But that the economic growth they generate would offset much of the costs.

Looks like we were right.

That economic good news has continued. As we write, the Labor Department has just released its most recent figures, which showed that September's unemployment was at the lowest level since the Vietnam War. The department noted that the jobless rate, which fell to 3.7 percent, was the lowest since December 1969. Employers in this country, meanwhile, added 134,000 jobs to their payrolls, which were a record 96th straight month of gains. (Indeed, those numbers, affected by Hurricane Florence, were later expected to be adjusted upward.) And wages rose 2.8 percent from a year earlier.

Tax reductions were not responsible for *all* of those positive numbers, of course. Yet, if such numbers were down, you can bet that the mainstream media would have blared themselves blue in blaming any drop-offs on the Trump cuts.

As it is, most opponents of tax cuts (e.g., Congressman Lowenthal) are lying about the actual effects of the cuts (as well as ignoring overspending). In truth, the largest U.S. deficit levels came during the Obama administration, after the "great recession," when they ranged from $1.1 trillion to $1.4 trillion between 2009 and 2012.

The tax cuts did boost the economy, as intended, even though that does not fit the narrative laid down by most big spenders. "Some analysts argue that last year's tax cuts are what's driving up the deficit, but that's not true," said Justin Bogie, a senior policy analyst at the Heritage Foundation. As he put it in early October:

The reduction of the corporate tax rate actually helped corporate revenues to the Treasury rise to the highest level in years.

It's out-of-control spending, not insufficient revenues, that's driving the country toward fiscal disaster.

Even when incorporating the tax cuts, federal revenues are projected to climb "every year as a share of GDP, going from 16.6% this year to 17.5% by 2025." Unfortunately, admits IBD, "spending is on track to climb even faster — going from 20.6% of GDP this year to 23.6% by 2028." This, in the words of the editors, is "little short of a disgrace, and shows that Republicans love spending taxpayer money as much as Democrats."

The editors of IBD also deserve credit for looking at the larger problem. They too have noted that tax reduction is not the culprit. Rather, the problem is "out-of-control spending, which will be nearly $1 trillion higher over the next decade thanks to recent spending deals."

Larry Kudlow, the president's chief economic advisor, anticipates that "the deficit-to-GDP ratios will be coming down eventually — not immediately, but over time." We shall see. He also admits that he is not a "deficit hawk." That's nothing to boast about: We wouldn't mind if he were more hawkish in this regard. Not long ago, Kudlow did suggest that "entitlements" (generally considered Social Security, Medicare, and Medicaid) might be reformed next year to lessen the deficit. "We have to be tougher on spending," he said.

Indeed. But talk is cheap, be they GOP or Democrat words. Actions do matter. "The day after sending the tax bill to the President's desk," commented Brian Riedl, a senior fellow at the Manhattan Institute, "congressional leaders postponed entitlement reform indefinitely."

Riedl also took a look at the CBO's Long-Term Budget Outlook earlier this year. It projected that "between 2017 and 2047, Social Security and Medicare will run a cash deficit of $82 trillion. Specifically, Medicare will run a $40 trillion cash deficit, Social Security will run a $19 trillion cash deficit, and the interest costs of those deficits will add $23 trillion more." (These projections were made before the tax cuts.) Nevertheless, "The rise in Social Security, Medicare, and resulting interest costs from 8.1 percent to 16.4 percent of GDP between 2017 and 2047 determines nearly the entire rise in budget deficits."

And the Democrats' inevitable solution — calling for more taxation of the "rich" — is not a real answer. Indeed, as Riedl also explained in *USA Today,* "Even doubling the highest two tax brackets to 70 and 74 percent would close just one-fifth" of the shortfalls of Social Security and Medicare.

Fiscal 2018 represented the eighth such fiscal year in the last 11 in which the National Debt increased by *at least one trillion dollars*.

Still, the recent tax cuts have caused the CBO to alter its projections, though it is not necessarily giving credit where it is due. Economist Stephen Moore recently recalled that the CBO in 2017 anticipated that the National Debt would double to 150 percent of GDP in two decades. Why so pessimistic? In part, that was based on a CBO "prediction before President Barack Obama left office that economic growth would average over 20 years between 1.7 percent and 1.8 percent."

There is, however, a new fellow in the White House. Congresses do change. Moore continued:

But growth has rocketed to above 4 percent over the last two quarters and it's a brand-new ball game. Just since the tax cut passed some nine months ago, the CBO has increased its estimate of economic output by a gargantuan $6.1 trillion over the 10-year window of 2018 to 2027.

Yet, as Moore also put it, the CBO "is genetically incapable of giving Trump the credit for the booming economy. In fact, he's penalized for it. Any sane person would say the deficit is going to be somewhere near $1 trillion smaller as the economy booms. Not $400 billion larger."

Even more remarkable, says Moore,

is that CBO says the rich will get a smaller share of the economic pie over the next decade. Wait a minute. I thought the Democrats said this was a tax cut for millionaires and billionaires. Guess not.

Government, we must admit, does some things well. Spending too much, unfortunately, ranks quite high on that scale. Writing in National Review Online, public-policy expert Michael Tanner has observed that "Democrats were quick to blame last year's Republican tax cuts for exacerbating the deficit." Yet, "tax revenues, fed by increased economic growth, are actually up one percent over this time last year." He rightly pointed to the "real culprit": spending, which "increased by 7 percent from last year, the largest year-over-year increase since 2009."

The Cato Institute analyst also has applauded the tax cuts, observing correctly that the process of allowing people and businesses to keep more of their own money should generally be seen as a positive thing. And in a separate piece, Tanner was on target in noting that would have been even better if the reductions had been accompanied by less spending by the federal government. "As Milton Friedman pointed out, the true cost of government is not found in taxes or debt, but in spending. Taxes and borrowing are just alternative ways of paying the cost. A smaller, less costly, less intrusive government would be better for all of us, would generate more growth, and would require fewer taxes to pay for it."

The tax cuts have added plenty on the credit side of the ledger. According to a tax and growth model by the Tax Foundation, the total effect will be a 1.7 percent larger economy, leading to 1.5 percent higher wages, a 4.8 percent larger capital stock, and an estimated 339,000 additional full-time equivalent jobs in the long run.

We should keep cutting — both taxes and government spending. Just imagine how much better the economy, and our personal pocketbooks, would be with a limited constitutional government. If Washington would just balance its budget, we would be happy to budget the balance.

— William P. Hoar

Photo: AP Images